



PROVINCE OF NEWFOUNDLAND

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF ASSEMBLY

for the

FINANCIAL YEAR ENDED

31 MARCH 1984

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**GOVERNMENT OF NEWFOUNDLAND AND LABRADOR
DEPARTMENT OF THE AUDITOR GENERAL**

December, 1984

The Honourable J.F. Collins, F.R.C.P.(E.),

Minister of Finance.

Sir:

In compliance with The Financial Administration Act, 1973, I have the honour to submit herewith, for transmission to the House of Assembly, the Public Accounts of the Province of Newfoundland for the financial year ended 31 March 1984 accompanied by my Report thereon.

Respectfully submitted,

J.F. McGRATH, C.A.,
Auditor General.

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REPORT OF THE AUDITOR GENERAL

INTRODUCTION

In compliance with the requirements of Sections 62 and 67 of The Financial Administration Act (Statutes of Newfoundland, 1973, No. 86), I submit my Report to the House of Assembly on the results of my examination and audit of the accounts and financial statements of the Province of Newfoundland for the financial year ended 31 March 1984.

The Public Accounts

2. Section 55 of The Financial Administration Act, 1973 reads:

"55.—(1) The Comptroller General of Finance shall as soon as possible after the end of each fiscal year prepare a report, to be called the Public Accounts, and shall submit it for audit by the Auditor General and onward transmission to the Minister for submission to the House of Assembly.

(2) The Public Accounts shall show in respect of the fiscal year to which they relate

- (a) the state of the public debt;
- (b) the revenue and expenditure;
- (c) all compromises, remissions, refunds and amounts written off; and
- (d) such other accounts and statements as may under good accounting practice be required to show the financial position of the province at the end of the fiscal year."

Financial Statements of the Province for 1983-84

3. The financial statements of the Province, submitted for audit by the Comptroller General of Finance in compliance with Section 55(1) of The Financial Administration Act, 1973, are listed in the Table of Contents of the volume of Public Accounts for 1983-84 under the following captions:

Statement of Assets and Liabilities

Consolidated Revenue Fund—Statement of Receipts and Payments

Revenue, Expenditure and Related Revenue

AUDITOR GENERAL'S OPINION

Accounts examined

4. In addition to my examination, from time to time, of the various accounts of the several departments, I have examined the accounts of the Province and the financial statements with respect to these accounts which have been prepared under the direction of the Comptroller General of Finance and to which I have referred in paragraph 3. I have received all the information and explanations I have required.

Scope of examination

5. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

Departmental accounts for the year ended 31 March 1984 were examined and tested to comply with the requirements of The Financial Administration Act, 1973:

- (i) Current Account Revenue and Related Revenue accounts were examined to comply with Section 61 of the Act, which reads: "The Auditor General shall satisfy himself that all public money is being fully accounted for and shall examine at his discretion the accounts of all persons charged with the collection and management of public money."
- (ii) Expenditure accounts were examined to comply with Section 60(1) of the Act, which reads: "The Auditor General shall examine periodically the accounts of all departments and shall take such further steps as he may deem necessary to satisfy himself that the accounts are faithfully and properly kept and that money expended has been applied, subject to this Act, to the purposes for which it was appropriated."
- (iii) The accounts of the province and the related financial statements were examined and audited to comply with the requirements of Section 62(1) of the Act, which reads: "The Auditor General shall, besides examining from time to time the various accounts of the several departments as provided for by this Act, examine and audit the accounts of the province for each fiscal year and for that purpose statements with respect to such accounts shall be prepared by such persons as the Comptroller General may direct."

The statements referred to in Section 62(1) of the Act are listed in Section 62(2) of the Act, as follows:

- (a) accounts of all receipts forming the Consolidated Revenue Fund;
- (b) accounts for all expenditures made from the Consolidated Revenue Fund;

- (c) accounts current with the several banks and fiscal agents of the province;
- (d) accounts relating to the raising or redemption of loans;
- (e) accounts relating to sinking funds;
- (f) accounts with other governments;
- (g) accounts held in trust for others; and
- (h) all other public accounts.

Opinion

6. In accordance with the requirements of Section 62(3) of The Financial Administration Act, 1973, I report as follows on the results of my examination and audit of the accounts and financial statements of the province for the year ended 31 March 1984.

In my opinion,

- (a) proper books of account have been kept by the province.
- (b) the financial statements of the province
 - (i) were prepared on a basis consistent with that of the preceding year and in agreement with the books of account,
 - (ii) in the case of the balance sheet, present fairly the state of the affairs of the province as at the end of the fiscal year,
 - (iii) in the case of the statement of revenues and expenditures, present fairly the revenues and expenditures of the province for the fiscal year, and
 - (iv) in the case of the Consolidated Revenue Fund, the statement of receipts and payments present fairly the receipts and payments of the Consolidated Revenue Fund for the fiscal year.

GENERAL MATTERS

7. **Foreword.** This audit report is submitted to the House of Assembly in accordance with the provisions of The Financial Administration Act, 1973. It describes the background of my position, presents the required audit opinion on the financial statements of the Province and includes detailed comments as I deem necessary on these financial statements. It also includes other comments and financial information which I consider should be reported to the Legislature.

8. **Financial Statements.** Financial statements are prepared for the purpose of providing summarized information as to the financial position of an organization at a given point in time, and the results of its financial activities over a specified period. The Public Accounts are the medium by which this information is provided for the Province of Newfoundland.

The magnitude of financial operations summarized in the Public Accounts, and the special nature of the accountability of governments to the people they represent, impose a great responsibility on those concerned with the proper maintenance of the records on which they are based and the presentation of the results in the most accurate and clearly understandable form possible. This responsibility rests with the Comptroller General of Finance, who is the chief accounting officer of the Government. Responsibility for the accounts and financial statements of public bodies rests with the management of those bodies. Representations in the financial statements of the Government and of the public bodies are therefore those of the Government and of the managements of the public bodies.

9. **Function of the Auditor General.** Governments have long felt the need to appoint an officer independent of the government of the day and of public officials and employees, to carry out an examination of the public accounts, and report directly to the elected legislative entity. The practice is international, and Canada has had an Audit Office since 1878. All of the provinces have, over the years, established such offices. I am an officer of the Legislature, appointed by the Lieutenant-Governor of the Province of Newfoundland. I am independent of the Government, and report to the House of Assembly.

One of the primary functions of an auditor is to report on the representations made by management in the financial statements. Such financial statements are a report by management of its stewardship. In the case of a provincial government, the management is the government of the day. The financial statements are embodied in the Public Accounts submitted to the House of Assembly.

To carry out this function, the auditor examines such audit evidence as is deemed appropriate and is available. The examination is conducted in accordance with professionally established generally accepted auditing standards. The Canadian Institute of Chartered Accountants pronounces upon these standards. On the basis of the evidence examined, the auditor endeavours to arrive at an opinion as to the credibility of management's representations, and as to the degree of their compliance with established accounting principles. In most activities other than those of governments, these are known as "generally accepted accounting principles." Because generally accepted accounting principles have not been

established for governments, it is usual to report on the degree of compliance with stated accounting policies.

Under early legislation of other government jurisdictions, it was usual to restrict the duties required of legislative auditors to those described in the previous paragraph. More recently it has become accepted that they may, or are required to, extend their audit functions beyond those traditionally required for the expression of an opinion, in order to provide additional information for the improvement of financial management. The concept has also evolved that legislative auditors may or should extend the scope of their work to include assessments of the degree to which programs are economically and efficiently administered and the appropriateness of the basis of accounting for fair presentation in the Public Accounts.

10. **Auditor General Act.** In his Report to the House of Assembly for the year ended 31 March 1978, my predecessor stated, "During my ten years as Auditor General it has become increasingly apparent to me that legislation governing the auditing of the Public Accounts of the Province and its agencies is deficient in a number of respects. It is, in fact, becoming more and more out of date when compared with recent legislation now in effect for Canada and in several of the Provinces. Furthermore, similar new legislation is being contemplated in those other provinces which have not yet enacted it.

The Report of the Independent Review Committee on the Office of the Auditor General of Canada, 1975, ("the Wilson Report") firmly established the inherent characteristics of the Office of the Auditor General, its role, duties and responsibilities, as essential to the means by which Parliament maintains its sovereignty over the raising and spending of public money. The foremost requirement for the Office is universally acknowledged to be that the Auditor General be and be seen to be the servant of the House of Assembly, and entirely independent of Government. The best means of establishing that is to provide for new and separate legislation governing the Auditor General. This would clearly indicate that the Auditor General's Office is not a branch of Government's financial organization but performs independent surveillance and attest functions on behalf of the House of Assembly and the general public—the taxpayers. A separate Act would prevent any changes being made in the statutory authority or other matters affecting the Auditor General without specific attention being drawn to them. A separate Act would also stress the importance which the House of Assembly attaches to the Auditor General's Office. I therefore respectively recommend that the House of Assembly, through whatever means are appropriate, examine the audit acts of other jurisdictions and take the steps required to provide this Province with legislation which can only serve to strengthen its essential control over the use of public funds."

So that members of the House of Assembly will be fully informed on this matter, I now summarize in chronological order, events which have taken place to date (5 November 1984) with respect to the provision of an Auditor General Act for Newfoundland.

1. The Honourable the Premier, in the House of Assembly, 30 March 1979, in commenting upon the Auditor General's recommendation for new audit legislation stated, "The Auditor General's suggestions in this regard are worthy of this House's most serious consideration. Consequently, may I suggest to the House that we establish

an independent review committee of the Office of the Auditor General."

2. In November 1979, the Minister of Finance provided Executive Council with background information on:

- (a) the need for a separate Auditor General Act;
- (b) a study made by the Department of Finance on legislation in other jurisdictions and the "value for money concept."

The Minister sought agreement to proceed with a course of action that would result in the preparation for draft legislation for a separate Auditor General Act. This course of action was subsequently approved by Cabinet in December 1979.

3. In September 1980, Treasury Board was ordered to undertake a comprehensive analysis into the development of a separate Auditor General Act, along certain prescribed lines.
4. Treasury Board reported to the Executive Council on the development of a separate Auditor General Act in February 1981, and set out several specific recommendations.
5. On 23 November 1981, I wrote the Minister of Finance and outlined a course of action to be taken to facilitate the preparation and enactment of a separate Auditor General Act.

In March of 1982, officials of my Department began preliminary work on the preparation of the initial draft of a separate Act. By June of 1982 work had progressed to the stage where a draft of the proposed Act had been prepared. A copy of this draft was forwarded to the Office of the Legislative Counsel in August 1983, for its review. As a result of further research and consultations the draft was revised and refined and by April 1984, in my opinion, it had reached the stage where it could be considered by Cabinet.

On 4 May 1984, I forwarded to the Minister of Finance, as well as several other senior government officials, a draft of a Bill—An Act respecting the establishment of the Office of the Auditor General, along with documentation to support my request for a separate Auditor General Act.

Almost six years have passed since my predecessor brought the matter of a separate Auditor General Act for this Province to the attention of the House of Assembly.

I will be continuing my efforts, on the basis of the work completed to date to deal with the matter, to have a separate Auditor General Act for this Province.

11. **Federal-provincial cost sharing claims.** In addition to my other responsibilities, I am required to audit and express an opinion on claims submitted by the Province to the Government of Canada under various federal-provincial cost sharing agreements.

It is my responsibility to ascertain that the terms of the applicable agreement have been complied with by the various departments, and that the amounts being claimed by the Province for cost sharing are correct and in accordance with the agreement.

I comment, as follows, regarding claims under the various agreements:

General Development Agreement. —The General Development Agreement between Canada and the Province is administered by the Intergovernmental Affairs Secretariat. During the 1983-84 year, in connection with the agreement, I examined a total of 354 claims, covering 12 separate subsidiary agreements which pertained to a total of 61 projects. These agreements, between the two governments, involved 9 different provincial government departments.

I am pleased to report that in general I found that these claims were reasonably well prepared, requiring few adjustments as a result of my audits.

Economic and Regional Development Agreement. —On 4 May 1984 the Government of Canada and the Government of Newfoundland signed the Canada-Newfoundland Economic and Regional Development Agreement (E.R.D.A.). This agreement provides for measures to be taken either jointly or severally by Canada and the Province under E.R.D.A. subsidiary agreements. The matters of inspection of accounts and records and the auditing of cost sharing claims under the E.R.D.A. and its subsidiary agreements are now under consideration by my Department. I note that my discussions are on going with the federal and provincial authorities in an effort to clarify my responsibilities in these matters.

Agreements administered by other departments. —In addition to the above, I examine and express an opinion on claims relating to the following agreements.

Administered by the Department of Rural, Agricultural and Northern Development:

Canada-Newfoundland Native Peoples of Conne River Agreement;

Canada-Newfoundland Native Peoples of Labrador Agreement.

In general, the claims submitted under these agreements were well prepared and required few adjustments as a result of my audits.

Administered by the Department of Social Services:

Vocational Rehabilitation of Disabled Persons Agreement.

Claims under this agreement were last made available for audit for the 1980-81 fiscal year.

Contribution Agreement. ... in respect of a General Design and Feasibility Study Project for an integrated Departmental program delivery Management Information

System.

In general, the claims under this agreement were well prepared and required few adjustments as a result of my audits.

Canada Assistance Plan Agreement.

Claims under this agreement were last made available for audit for the 1978-79 fiscal year. This matter is referred to elsewhere in my Report.

Administered by the Department of Education:

Canada-Newfoundland Training Agreement.

In conjunction with claims made under this agreement, I note that the claim submitted for audit by the Bay St. George Community College during the 1983-84 fiscal year contained numerous errors and required considerable audit time for correction. Except for the claim submitted by the Bay St. George Community College, I report that in general claims submitted under this agreement were well prepared and required few adjustments as a result of my audits.

12. Crown corporation and other audits. In addition to auditing the Public Accounts of the Province of Newfoundland, I am responsible for numerous other audits. These include certain Crown Corporations, Boards, Authorities and Sundry Funds administered by the Province, the City of St. John's and certain School Tax Authorities and Municipalities. These additional audits, some of which are performed from the Corner Brook Office of my Department, are listed in Appendix II of my Report.

In the case of Crown Corporations, Boards, Authorities and Sundry Funds administered by the Province, my audits include fourteen Crown Corporations, nineteen Boards, Authorities and Commissions, sixteen Building Corporations, the three Colleges and the University. As part of these audits, I express my opinion on the financial statements and, where necessary, issue a management letter. This letter includes any suggestions I might have for improvements in the financial management system and/or draws attention to any matters which arose as a result of my audit.

As at 31 March 1984, I was responsible for the audit of forty-four municipalities and the City of St. John's. As part of these audits, I express an opinion on the financial statements of the municipality, issue the reports required under Sections 85 and 383 of The Municipalities Act, 1979, or under Section 348 of The City of St. John's Act and, where necessary, issue a management letter.

In view of the need for resources to audit Crown Corporations, Boards, Authorities and Sundry Funds as well as to perform my prime mandate to audit the Public Accounts of the Province, I am presently reducing my role in the municipal audit field.

I also audit the twenty School Tax Authorities. As part of these audits, I express an opinion on the financial statements of the Authority, issue the report required under Section 24(4) of The Local School Tax Act, 1970, and, where necessary, issue a management letter.

13. Crown Corporations, Boards and Authorities not audited by the Auditor General. For information purposes, I have included as Appendix III of my Report a list of Crown Corporations, Boards and Authorities for which I have not been appointed the auditor.

14. Canadian Comprehensive Auditing Foundation. The Canadian Comprehensive Auditing Foundation was established in 1980 as a national, non-profit organization—an autonomous body devoted to the development of comprehensive auditing. The Foundation was created out of the combined interest of Canadian legislative auditors, senior representatives of leading firms in accounting and management consulting, the internal audit and the academic communities.

The main objective of the Foundation is to serve as a focal point for collecting and communicating comprehensive auditing knowledge and experience. To meet this objective, the Foundation:

- disseminates comprehensive auditing methodology, and designs and organizes professional development programs to promote an understanding of the concepts and applications of comprehensive auditing; and
- conducts research and fosters the development of management practices designed to ensure economy, efficiency and effectiveness in the management of public funds and resources.

Since its inception, the Canadian Comprehensive Auditing Foundation has issued five (5) studies:

1. Improving Accountability—Canadian Public Accounts Committees and Legislative Auditors (1981)
2. Value-for-Money Management—A survey of Program Evaluation in Canada (1983)
3. Comprehensive Auditing: Concepts, Components and Characteristics (1983)
4. The Role of Auditing in Canadian Municipal Administration (1983)
5. Value for Money in Municipalities: A Practitioner's Guide to Municipal Comprehensive Auditing (1984)

These studies are of great importance to the auditing profession in general and to my Department in particular as I seek to achieve a broader mandate under a new and separate audit act.

The Department of the Auditor General of Newfoundland is a sustaining member

of the Foundation. I have been appointed to serve a three year term as a member of the Board of Governors and I have found it to be both interesting and challenging. It has provided me with the opportunity to meet with and exchange ideas with my colleagues and other individuals who share a common interest in comprehensive auditing.

15. Canadian Conference of Legislative Auditors. The twelfth annual meeting of the Canadian Conference of Legislative Auditors was held in Charlottetown, Prince Edward Island, from July 9-11, 1984. Representatives of all legislative audit offices, provincial and federal, attended. The meeting, which serves as a useful forum for the sharing of ideas and information, was attended by three members of my Department.

Matters discussed at the Conference included, Annual Reporting—Getting the Message Across, Public Sector Pensions—Funding Valuations and Other Considerations, Corporations and Other Crown Agencies—Effect on Audit Mandate and on Audit Approach, Computer Usage and Computer Auditing, The Boundaries of Comprehensive Auditing—Where are we? What is the impact? Where do we go?, and an update on the work of the Canadian Institute of Chartered Accountants' Public Sector Accounting and Auditing Committee.

The Chairmen of the Public Accounts Committees in Canada held their sixth annual meeting in Charlottetown at the same time as our conference so that the agenda of both groups could be arranged for joint sessions. The subjects of the joint sessions were "Government Financial Statements" and "The Auditor, The Public Accounts Committee and The Media at Annual Report Time."

16. Public Accounts Committee. The Public Accounts Committee has been appointed under Standing Order 84(a),(d) of the Standing Orders of the House of Assembly of Newfoundland to enquire into the Public Accounts of the Province and the Report of the Auditor General on these accounts.

During the past year, to 1 February 1984, the Committee held meetings to consider the Public Accounts and the Report of the Auditor General for the financial year ended 31 March 1983. I understand that further meetings are intended to be held in the Fall of 1984. I have attended the meetings to date to be of any possible service to the Committee. As well, I continue to provide a member of my staff to the Committee as its research officer.

17. Staff training and development. From the time of my appointment as Auditor General I have perceived the need to have my staff trained in the most modern techniques used in the auditing profession. Because the field of legislative auditing is continually changing I have emphasized the need for my audit staff to remain current in the use of audit techniques and to maintain their knowledge at a current level.

On 3 May 1982 I engaged the services of a national Chartered Accounting firm for the purpose of upgrading the personnel resources and audit standards of my Department. Since that time approximately fifty-five members of my staff have completed indepth training programs designed to improve their audit skills. I am very pleased with the success of this program and its effect on improving the audit methodology in use within my Department.

I have strongly encouraged all of my audit staff to pursue and complete the program of study which leads toward completion of the selected professional accounting designation. Recent results of students sponsored by my Department provide ample evidence of the success of these programs. During the past year seven of my staff earned professional accounting designations, five as Chartered Accountants and two as Certified General Accountants. I commend these students for their efforts and I congratulate them on their success. I look forward to continued high achievement from those of my staff now studying towards a professional accounting designation.

I note that my Department avails of training programs of the Newfoundland Public Service Commission where possible. Many of my management staff have participated (and continue to participate) in the management and supervisory development program offered by the Commission. My senior staff and I have also participated in the seminars offered by the Commission relating to the Management Performance Review Program.

18. **Corner Brook Office.** I am pleased to report that my Corner Brook Office continues to operate in an efficient and effective manner. The office is staffed by an Audit Manager and an Audit Senior II who are Chartered Accountants, three audit staff and a Clerk-Typist. It has been assigned responsibility for the performance of my audits west of Grand Falls and in Labrador.

19. **Auditor General's Advisory Council.** Many complex matters must be considered in the course of my audit of the accounts of the Province. I am assisted in this regard by the following Chartered Accountants who serve as my Advisory Council:

E.N. (Ted) Hunter, F.C.A.
Bernard P. Hogan, C.A.
J. Wayne Trask, C.A.

I appreciate the contribution made by this Council to the work of my Department.

COMMENTS ON ASSETS AND LIABILITIES

Consolidated Fund Services

20. **Investment in non-qualifying investments.** During the financial year there are periods when the Province has surplus cash in the Consolidated Revenue Fund. Section 15(1) of The Financial Administration Act, 1973 sets out the investments in which the Minister of Finance may invest these surplus funds. It states that the Minister may invest as follows:

- " (a) in any stock, debentures, bonds, treasury bills, treasury notes and other securities,
 - (i) issued by the Government of Canada or the government of any province of Canada, or
 - (ii) guaranteed by the Government of Canada or by the government of any province of Canada;
- (b) in any bonds, debentures or other securities issued by the Newfoundland and Labrador Hydro-Electric Corporation otherwise known as the Newfoundland and Labrador Hydro;
- (c) in any bonds, debentures or other securities issued by the City of St. John's;
- (d) in deposits in any bank to which the Bank Act (Canada) applies including investments in bearer deposit notes, term deposit receipts, bankers acceptances and similar bank investment instruments;
- (e) with the prior approval of the Lieutenant-Governor in Council in each case, in deposits in any bank situated outside Canada including investments in bearer deposit notes, term deposit receipts, bankers acceptances and similar bank investment instruments;
- (f) in any securities issued by
 - (i) the Newfoundland Municipal Financing Corporation, or
 - (ii) the Newfoundland Industrial Development Corporation,if the securities are acquired in accordance with the Act governing the Corporation; and
- (g) in any securities issued or guaranteed by an investment-approved corporation if the securities are approved by the Lieutenant-Governor in Council for investment before being acquired by the Minister."

As at 31 March 1984, the Province's temporary investments of \$66,133,000, included \$17,000,000 which was invested in call loans. Under a call loan the Province authorizes its

bank to loan a specified amount of funds to an investment dealer. In return, the investment dealer transfers to the bank certain securities to hold as collateral on the loan. The bank acts strictly as an agent for the Province and does not guarantee the indebtedness of the investment dealer.

Even though the securities which the investment dealer transfers to the bank as collateral for these loans meet the criteria of eligible investments as set out in Section 15(1) of The Financial Administration Act, 1973, it is my opinion that these call loans do not meet the criteria for eligible investments under Section 15(1) of the Act.

21. Investments of the Consolidated Sinking Fund in non-qualifying investments. One of the methods used by the Province to borrow money is through the issue and sale of debentures. The terms of these debentures usually include a provision for the establishment by the Province of a sinking fund, to which stipulated sums are paid annually by the Province. These sums, plus interest earned thereon, are held for the purpose of retiring the debt at maturity.

For the more convenient administration of the sinking funds of the Province, all of the sinking funds have been combined into one fund, known as the Consolidated Sinking Fund. This fund was established by Section 37A of The Financial Administration Act, 1973.

Subsection 37(3) of The Financial Administration Act, 1973, states, in part, that "Moneys in a sinking fund created with respect to any securities may be invested in bonds, debentures or any other securities whatsoever

- (a) of the Government of Canada or of any of the provinces of Canada;
- (b) the payment of which is guaranteed by the Government of Canada or by any of the provinces of Canada;
- (c) of any chartered bank; or
- (d) of any company organized under The Companies Act to hold title to any building in the Province which is leased to the Government, if all of the shares of the company are held by or on behalf of the Government,

or in any of such bonds, debentures or other securities..."

My audit of the Consolidated Sinking Fund for the year ended 31 March 1983, disclosed that at one point during the year the fund had investments of \$19,000,000 in a form of investment known as call loans. As at 31 March 1983 \$10,500,000 of these call loans were still outstanding. Under this form of investment the Consolidated Sinking Fund authorizes its bank to loan a specified amount of cash to an investment dealer. The investment dealer in return provides the bank with certain securities to hold as collateral for the loan. The bank acts strictly as an agent for the Consolidated Sinking Fund and does not guarantee the indebtedness of the investment dealer.

Even though the securities which the investment dealer transfers to the bank as collateral for the call loan meet the criteria of eligible investments as set out in Subsection 37(3) of The Financial Administration Act, 1973, it is my opinion that these call loans do not meet the criteria for eligible investments under the Act.

Consolidated Fund Services

22. **Liability for debenture issue understated by \$2,011,464.** Paragraph 36 of this Report refers to unrecorded debt expenses of \$2,011,464, for the financial year ended 31 March 1984, and a related understatement of the Province's liability for debenture debt as at 31 March 1984.

Department of Finance

23. **Provision for loss on investments.** In my three previous reports, I have referred to the lack of a provision in the accounts of the Province for potential losses on investments in the shares of corporations. One example noted was Marystown Shipyard Limited, a Crown Corporation, in which the Province owned directly all of the common shares and approximately 69 per cent of the preferred shares.

I noted from the audited financial statements of Marystown Shipyard Limited as at 31 March 1984, that the Shareholders' Equity was reported to be \$3,527,000. Of this amount the Province owns 69 percent, \$2,433,630, directly, and 31 percent through Newfoundland Industrial Development Corporation. However, the carrying value of the Province's investment, as reported in the Schedule of Investments in the Public Accounts, is \$16,187,881. This is \$13,754,251 more than its direct share of the Shareholders' Equity in Marystown Shipyard Limited. It is apparent, therefore, that the value of the Province's investment in this company was substantially less than the value of the shares reported in the Schedule of Investments as at 31 March 1984. However, no provision for loss on investments has been recorded in the Public Accounts of the Province as at 31 March 1984.

In my opinion, a provision for loss on investments should be recorded in the Public Accounts for any potential losses to the Province arising from its investments.

I note that this matter was considered by the Public Accounts Committee during its meetings held in November 1983. I look forward to the report of the Committee to the House of Assembly on this matter.

24. **Reconciliation of Newfoundland Exchequer Account balance in Bank Account Ledger with balance in General Ledger.** The Newfoundland Exchequer Account is the bank account into which all revenues of the Province are deposited and from which periodic withdrawals are made to cover expenditures of the Province. To record these deposits and withdrawals, the Department of Finance maintains a subsidiary ledger, known as the Bank Account ledger, which contains several bank accounts, including one for the Newfoundland Exchequer Account. A bank account titled Newfoundland Exchequer Account is maintained in the General Ledger of the Province. Once each year, the Department of Finance

prepares a statement to show that the balance reported in the Newfoundland Exchequer Account in the subsidiary ledger reconciles to the balance shown in the Newfoundland Exchequer Account in the General Ledger.

With regard to the preparation of this reconciliation statement, I have to report that some delay has been experienced in recent years in preparing this statement. For examples: the reconciliation as at 31 March 1982 was not prepared until February 1983; the reconciliation as at 31 March 1983 was not prepared until late October or early November 1984; and, the reconciliation as at 31 March 1984 had not been prepared as of 1 November 1984.

In my opinion, officials of the Department of Finance should prepare a statement, on a timely basis, to show that the balance reported in the Newfoundland Exchequer Account in the Bank Account Ledger reconciles to the balance shown in the Newfoundland Exchequer Account in the General Ledger, to enhance control over the Newfoundland Exchequer Account and the Province's revenues and expenditures.

25. **Undisclosed payroll liabilities.** In paragraph 24 of my 1982-83 Report, I indicated that the Province does not record or note in the Public Accounts its liability to employees for Severance Pay, Annual Leave and Regular Pay.

(i) **Severance Pay**—It is Government policy that an employee who has ten (10) or more years of continuous service is entitled to be paid on resignation, retirement, termination by reason of disability, expiry of recall rights, or in the event of death to the employee's estate, severance pay equal to the amount obtained by multiplying the number of completed years of continuous employment by the employee's weekly salary to a maximum of twenty (20) weeks pay, such amount not to exceed \$10,000. My audit disclosed that severance pay payments for the years ended 31 March 1983 and 1984 were \$977,182 and \$1,112,085 respectively.

(ii) **Annual Leave**—It is Government policy that an employee can carry forward to another fiscal year any portion of annual leave not taken in previous years until the employee has accumulated a maximum number of days.

Therefore, at the end of such fiscal year, there is a liability for such annual leave carried forward by employees.

(iii) **Regular Pay**—The general service payroll for the two (2) week period ended 3 April 1984 was \$8,647,517. Of this amount 80% or \$6,918,014 related to services provided in the 1983-84 fiscal year and therefore such amount is a liability at 31 March 1984.

The Department of Finance and the various departments do not calculate or estimate the liability for these items for inclusion in the Public Accounts of the Province. In my opinion, they should do so.

26. **Provincial pension plans.** In paragraph 23 of my 1981-82 Report, I brought to the attention of the House of Assembly the need for a complete study of the four

pension plans administered by the Province, with particular attention given to (i) the accrued unfunded liability for each plan and (ii) the relationship between the costs of current service benefits being accrued relative to each plan and the contributions required to adequately fund these benefits.

In paragraph 25 of my 1982-83 Report I noted that the Department of Finance was in the process of engaging consulting actuaries to provide actuarial advice on the various government pension programs and to perform a complete actuarial review and cash flow analysis on all such pension programs.

I note that in January 1984, Minute of Council 78-'84 ordered the awarding of a contract to a firm as actuarial consultants. In September 1984, Minute of Council 919-'84 authorized the Minister of Finance to execute a contract with this firm. The later Minute of Council stated that, "A copy of the said contract is on file with the Clerk of the Executive Council." However, as at this date, 30 October 1984, the contract has not been executed.

In my opinion, it is essential that the work relating to the study of the pension plans proceed so that the actuarial valuations and recommendations resulting from the study become available as soon as possible.

Department of Education

27. **Province's liability for debt of the Denominational Education Councils.** In my three previous Reports, I commented that certain amounts borrowed from two banks by the Denominational Education Councils, (previously Denominational Educational Committees) which were to be repaid by the Province through the Councils, were not properly disclosed in the Public Accounts of the Province.

The Province's liability, with respect to the above mentioned loans, which totalled \$98,130,000 at 31 March 1983, was disclosed in the Public Accounts of the Province in the Schedule of Contingent Liabilities as Guaranteed Bank Loans, Corporate and Others, Denominational Education Committees.

In my previous Reports, I stated that, in my opinion, the total amount of the loans was a direct liability of the Province and should have been included in the Schedule of Current and Long-Term Liabilities of the Province.

The Department of Finance, in previous years, continued to show the loans in the Schedule of Contingent Liabilities, notwithstanding that the Department of Justice advised them, in a memorandum dated 25 November 1982, to the effect that the Province had a direct liability relative to the amount of the debt of the Denominational Education Councils.

A Minute of Council, dated 30 January 1984, ordered that the assumption of the outstanding capital debt of the Denominational Education Councils by the Province be approved. It further ordered that the Department of Finance enter into negotiations for the refinancing of this debt. A subsequent Minute of Council, dated 27 February 1984 ordered that, under

authority of Section 28(2) of The Financial Administration Act, 1973, the Lieutenant-Governor in Council be and he is hereby moved to issue a Special Warrant in the amount of \$90,500,000, for the purpose of paying off outstanding capital debt of the Denominational Education Councils. Another Minute of Council, dated 16 March 1984, authorized the issue of \$90,000,000 principal amount of Floating Rate Debentures Series 5M to be dated 27 March 1984 and to be payable on 27 March 1989, subject to prior redemption.

The balance of principal and interest outstanding on the debt as of 27 March 1984 was \$93,663,751. The gross amount of the proceeds from the debenture issue was used to finance \$90,000,000 of the debt, while the balance, amounting to \$3,663,751, was financed with funds already provided for by the Legislature.

The Department of Finance, as noted in my three previous Reports, did not previously include this debt as direct debt of the Province in the Public Accounts. Now, as a result of the action taken in 1983-84, the Province has, in effect, recorded the debt of the Denominational Education Councils as direct debt of the Province.

Department of Social Services

28. Unsatisfactory reporting of assets and liabilities. My audit of the statement of assets and liabilities prepared by the Department of Social Services for the year ended 31 March 1984 disclosed the following deficiencies:

- (i) Government of Canada—claims in progress, accounts receivable and trust account assets were understated by approximately \$1,650,000.
- (ii) Current liabilities were understated by an amount in excess of \$545,000.
- (iii) Estimates of accounts receivable and a current liability were used in preparing the statement and significant adjustments were required to these items when their actual dollar value was determined.
- (iv) The Department was not able to provide adequate supporting documentation for all the liabilities included in its statement.

At my request, adjustments have been made to the Public Accounts to correct the errors noted above.

In my opinion, based on the numerous errors I detected in the course of my audit, the Department has displayed an apparent lack of concern for determining and correctly reporting its assets and liabilities at year-end. I note that I have expressed my concerns to the Department in the past regarding proper reporting of assets and liabilities. In my letter dated 17 March 1982, I stated that "the Department should take action to ensure that only valid receivables or accounts payable are reported for Public Accounts purposes at the end of the fiscal year."

In order to resolve this situation I recommend that in the future the Department ensure that:

- (i) all assets and liabilities are identified and correctly reported at year-end; and
- (ii) adequate supporting documentation exists for all assets and liabilities reported.

Department of Justice

29. **Court fines receivable.** The asset statement of the Department of Justice included fines receivable for the Provincial Courts and the Traffic Court totalling \$3,767,812 as at 31 March 1984. The department has estimated that \$1,697,247 of this amount is uncollectible and that \$550,971 of this represents fines payable to various third parties.

My audits of Provincial Courts have disclosed that the procedure used by the courts respecting defaulted fines is the issuance of a Warrant of Committal for the convicted person. The warrant is passed to a law-enforcement officer whose duty it is to apprehend the named party and ensure that person's imprisonment; or the officer may collect the outstanding fine and deposit the proceeds in a bank account opened under authority of the Comptroller General of Finance. Amounts deposited to these fines collections accounts are subsequently disbursed to the Provincial Courts.

I note that:

- (i) In some cases, where the courts permitted time in which convicted persons might pay their fines, but the fines were not paid within the time allowed, there was delay in the issuance and/or execution of Warrants of Committal.
- (ii) As aged trial balances of outstanding fines are not prepared at all the courts, there is no reasonable basis for determining an adequate allowance for doubtful accounts.
- (iii) There are no established procedures for obtaining on a regular basis approval to write off those fines which are known to be uncollectible.
- (iv) Prior to authorizing the opening of fines collections bank accounts, the Comptroller General of Finance requested that the Department of Justice implement certain control procedures over these accounts. Although the Department agreed to implement these procedures, my audit of the Department has disclosed that these procedures have not been implemented.

In my opinion:

- (i) Courts should collect outstanding fines or issue Warrants of Committal promptly.
- (ii) Aged trial balances of outstanding fines should be prepared by all the courts.

- (iii) Established procedures for obtaining approval to write off those fines which are known to be uncollectible should be undertaken regularly.
- (iv) The Department of Justice should implement the control procedures over fines collections bank accounts that were requested by the Comptroller General of Finance.

30. **Province's insurance claim of \$640,365 not paid by insurers.** Minute of Council 186-'82, dated 25 February 1982, ordered that certain actions be taken regarding the state of emergency in Labrador City in January 1982.

It ordered that funding be provided to the Town of Labrador City to meet the cost of repairs to plumbing and ancillary electrical work in instances where residences became uninhabitable due to the storm damage.

It further ordered that the Department of Justice should:

- (i) monitor the disbursement of the said funds to the Town of Labrador City;
- (ii) take all necessary steps to recover any insurance that may be payable with respect to such storm damage repaired by contract as aforementioned; and
- (iii) where insurance was recovered by the Department of Justice, the Department was authorized to absorb the cost of any amount that was deductible from claims under the terms and conditions of insurance coverage.

From March 1982 to June 1982 the Department of Justice paid \$650,586 to the Town of Labrador City to meet the costs of repairs to storm-damaged residences. Documents at the Department of Justice show that to 31 August 1982, the Town of Labrador City had paid \$636,527 to contractors who effected the repairs.

In order to enable the recovery of any insurance (as referred to in the Minute of Council), the Department of Justice took an assignment of their insurance benefits from all homeowners who had required emergency repairs from the contractors. Subsequently, on 24 February 1983, the Department submitted an insurance claim of \$640,365 to the adjusters representing the insurers of the repaired properties. This claim has been recorded as an account receivable in the accounts of the Province. However, the claim of the Department was rejected by the insurers on the grounds that, because of late submission of the claim, the right of action by the Department of Justice to recover under the assigned insurance policies had become statute barred. Subsequent negotiations by the parties concerned failed to resolve the matter. On 11 June 1984 the adjusters on behalf of the insurers extended to the Province an ex-gratia offer in payment of the claim. This offer was not accepted by the Province.

As of this date (6 November 1984) no settlement of the matter has been determined.

COMMENTS ON CURRENT ACCOUNT REVENUE

31. **General comments.** The Summary of Revenue, Expenditure and Related Revenue by Department, Statement No. 4 of the Public Accounts, shows total current account revenue at \$1,603,459,000. Details concerning the amounts which are classified as current account revenue appear in Statement No. 6 of the Public Accounts and the notes thereto.

In summary, the total comprises:

Payments received from the Government of Canada—

Government of Canada	\$746,457,000
Reciprocal tax agreement	9,757,000
	<u>756,214,000</u>

Provincial income taxes collected and remitted by the Government of Canada—

Personal income tax	247,286,000
Corporate income tax	33,595,000
	<u>280,881,000</u>

Revenue received through the Newfoundland Liquor Corporation and the Newfoundland Liquor Licensing Board	67,441,000
Retail Sales Tax	318,660,000
Gasoline Tax	66,065,000
Mining Tax and Royalties	19,920,000
Tobacco Tax	40,630,000
Revenue from other taxes, privileges, licences, permits, etc., collected by government departments, as shown in Statement No. 6	53,648,000

\$1,603,459,000

Department of Finance

32. Audit of Provincial Income Taxes. As I have previously reported to the House of Assembly, both personal and corporate income taxes, imposed by the Province, are, by agreement, collected by the Government of Canada on behalf of the Province. However, due to the provisions of the collection agreement, the Auditor General of the Province is unable, himself, to perform the audit work required to express an opinion on the provincial tax revenue from these sources.

In recent years, I (and other provincial legislative auditors in a similar situation) have relied on assurances from the Auditor General of Canada, based on audit work performed under his direction, relating to the assessing, proper allocation and accounting for provincial personal and corporate income tax revenues.

With respect to provincial revenue from these sources for the financial year ended 31 March 1984, I report that the Auditor General of Canada has addressed my specific concerns and, based on the results of his audit of the accounts of Canada, there are no indications that the personal and corporate income taxes assessed by the Government of Canada on behalf of the Province of Newfoundland were not properly allocated and transferred in compliance with the federal-provincial tax collection agreement.

33. Audit of the Retail Sales Tax System. In paragraph 30 of my 1982-83 Report, I referred to the audit of the Retail Sales Tax System which I had completed in February 1983. I stated that as a result of that audit I had issued a detailed report to the Comptroller General of Finance. In that report, I identified the control weaknesses in the system and outlined my recommendations for improvements relating to the following areas:

- (i) Registration of vendors
- (ii) Bonding of vendors
- (iii) Processing of tax returns
- (iv) Collection of tax on motor vehicle sales
- (v) Penalties and interest
- (vi) Collection activities
- (vii) Selection of vendors for audit, and
- (viii) Computer reports.

I stated that the implementation of my recommendations would, in my opinion, improve the system of control over the collection and recording of Retail Sales Tax revenue.

I also disclosed, in my 1982-83 Report, that in his response, dated 14 September 1983, the Comptroller General of Finance expressed general agreement with my recommendations and indicated that several of my recommendations had been implemented. Other recommendations were under review and would be implemented, where practical.

As a result of my audit of the Retail Sales Tax System for the year ended 31 March 1984, I have determined that, while many of my recommendations have been implemented, several weaknesses still exist.

I have recently been informed that a steering committee and project team have been formed with terms of reference to overview the requirements, design and implementation of a computer system for provincially controlled taxation revenues suitable for mechanization. The committee and team consist of certain senior officials of the Department of Finance who are responsible to the Comptroller General of Finance for tax administration and financial accounting and control functions. As well, they include officials from Newfoundland and Labrador Computer Services Limited.

I anticipate that the system will be designed using guidelines which incorporate financial management and accounting control considerations and that my recommendations will be given due consideration.

34. Conflict between The Financial Administration Act, 1973 and The Retail Sales Tax Act, 1978. In paragraph 31 of my 1982-83 Report, I noted that there was an apparent conflict between provisions of The Financial Administration Act, 1973, and The Retail Sales Tax Act, 1978.

Section 61 of The Financial Administration Act, 1973, states that, "The Auditor General shall satisfy himself that all public money is being fully accounted for and shall examine at his discretion the accounts of all persons charged with the collection of public money."

Subsection 28(1) of The Retail Sales Tax Act, 1978, states that, "Subject to this section, returns made under this Act shall not be made available to any persons except persons authorized by the Minister to receive them." Subsections 28(2) through 28(4) describe the persons who may be authorized, as above, by the Minister. I note that the Auditor General is not specifically named as being one of these persons.

Since making my 1982-83 Report, I have had meetings with the Minister of Finance, the Comptroller General of Finance and other officials of the Department of Finance to discuss and resolve problems I have encountered in my audit of the provincial Retail Sales Tax. Among other things to resolve these problems, it was agreed that the Comptroller General of Finance would prepare, for the Minister of Finance, a cabinet submission which would result in either an amendment to the taxation legislation or The Financial Administration Act, 1973, and resolve once and for all any problems associated with my accessing taxation files of the Department of Finance.

On 20 September 1984, a Cabinet Directive was issued which ordered that, "the Office

of Legislative Counsel, in consultation with the Department of Finance, is hereby directed to prepare an amendment to The Financial Administration Act which would provide that, notwithstanding the confidentiality provisions of certain taxation statutes administered by the Department of Finance, the Auditor General shall have, at all convenient times, access to returns required to be made under such statutes, subject to the requirement that a representative of the Minister of Finance be present when such returns are examined."

In my opinion, the requirement that a representative of the Minister of Finance be present, as referred to above, is unnecessary. Furthermore, it is completely unacceptable to me because it could interfere with and/or restrict me in the performance of my duties under The Financial Administration Act, 1973.

35. **Refunds of tax.** In accordance with Section 67(4) (g) of The Financial Administration Act, 1973, I report that refunds of tax during 1983-84 were made as follows:

Mining Tax and Royalties	\$3,196,000
Gasoline Tax	722,000
Retail Sales Tax	605,000
Insurance Premiums Tax	8,000
Tobacco Tax	4,000
Insurance Companies Tax	1,000
Forest Management Tax	1,000
	<u>\$4,537,000</u>

COMMENTS ON EXPENDITURES AND RELATED REVENUE

Consolidated Fund Services

36. **Unrecorded debt expenses of \$2,011,464.** During the 1983-84 financial year the Province issued three new series of bonds, Series 5L, Series 5M and Series S2. In the past it has been the practice of the Department of Finance, with respect to Consolidated Fund Services, to record as expenditure the amount of commissions and other expenses related to the issuance of new debentures in the year in which these expenses are paid. However, for the 1983-84 financial year these expenses were recorded for only two of the three new debenture issues. The expenses recorded were as follows, for Series 5L \$1,812,500 and for Series 5M \$75,000.

Series S2 was issued on 15 September 1983 in the amount of 100,000,000 Swiss Francs. The expenses in relation to this issue were:

	Swiss Francs
Underwriting commission	2,500,000
Management Fee	500,000
Swiss tax	306,337
Listing fee	250,000
	<u>3,556,337</u>

These expenses, converted at the exchange rate in effect at the date of issuance, amounted to \$2,011,464 Canadian. These expenses have not been recorded as expenditure in the Public Accounts of the Province for the 1983-84 financial year. Instead, the liability for the debenture issue has been understated by an equivalent amount.

In my opinion, these expenses should have been recorded in the statement of expenditure and related revenue for Consolidated Fund Services for the 1983-84 financial year. This would have resulted in an increase of \$2,011,464 in the current account deficit of the Province, for the financial year ended 31 March 1984. Furthermore, the Province's liability for debenture debt, as at 31 March 1984, is understated by \$2,011,464.

Department of Finance

37. **Audit of the Financial Management Information System.** Effective 1 April 1983, the Department of Finance implemented the computerized Financial Management Information System for all government departments. During the year I completed a preliminary review and evaluation of this system. The scope of my examination was limited to the input and

output phases of the system in effect in the Department of Finance and in six (6) government departments.

The objectives of my examination were:

- (i) To document the system;
- (ii) To review and evaluate the financial controls within the system; and
- (iii) Based on my audit examination, to form an opinion on the financial controls operating within the system.

Based on my review and evaluation of the Financial Management Information System, I report that, in my opinion, the system does not include sufficient controls to prevent or detect:

- (i) The processing of incomplete, inaccurate or unauthorized transactions;
- (ii) The concealment of incomplete, inaccurate or unauthorized transactions;
- (iii) The suppression of authorized transactions; and
- (iv) The loss of management and audit trail for vendor file additions.

My review and evaluation of the system disclosed that:

- (i) The Department of Finance does not perform a reconciliation of output to input;
- (ii) Five (5) of the six (6) government departments examined do not perform reconciliations of output to input;
- (iii) The documents reviewed before forwarding to payment processing are not signed to indicate the performance of a review;
- (iv) Key-punch operators balance their own work and there is no evidence of an independent review and approval; and
- (v) Vendor set-up and maintenance forms are not retained for subsequent review.

I have informed the Department of Finance and the five (5) government departments of the weaknesses in the system and my recommendations for improvement.

In my opinion, the Department of Finance and the government departments should take the necessary steps to strengthen and improve the Financial Management Information System and to ensure the implementation of adequate control procedures.

38. Audit of the General Service Payroll System. My audit of the General Service Payroll

System for the year ended 31 March 1984 consisted of performing substantive audit tests and procedures employing computer assisted audit techniques.

My audit disclosed that proper attendance records are not maintained and properly approved by certain government departments as prescribed by the Payroll Procedures Manual and the Management Manual, Volume I, Financial Policy and Procedures.

This weakness in the system of control could result in leave entitlements being exceeded and, upon termination, payment being made to employees for annual leave which has in fact been taken.

I recommend that steps be taken to ensure that proper attendance records are maintained and independently approved by designated senior officials in all government departments.

In my previous Reports I expressed my concerns regarding the weaknesses in the system of control over the General Service Payroll System. I also conveyed my concerns to the Comptroller General of Finance and the applicable government departments. I now report that I have received positive responses from the Comptroller General and the government departments indicating that corrective action has or will be taken. At Report date, I have not performed a detailed follow-up review and evaluation of the action taken. In my future audits I plan to perform an indepth review and evaluation of the complete General Service Payroll System.

Department of Public Works and Services

39. Certain internal control weaknesses over general and program maintenance expenditure. I have examined the Department of Public Works and Services system of internal control over general and program maintenance expenditure for the year ended 31 March 1984.

The objectives of my examination were:

- (i) To review and evaluate the system of internal control over general and program maintenance expenditure.
- (ii) To conduct audit tests of transactions and records of the Department to assess the impact of any identified control weaknesses.
- (iii) Based on my audit examination to form an opinion on this system.

In relation to these objectives, I report as follows:

- (i) My review and evaluation leads me to conclude that certain weaknesses exist in the system of internal control over general and program maintenance expenditure.
- (ii) My tests of transactions and my review of the records of the Department revealed

that:

- (a) Work orders, which are used to request a contractor to perform a maintenance project, were not signed in all cases by a representative of the Department.
 - (b) Some work orders were being prepared after the particular project was completed and there was no indication on the work order that the project had been performed on an emergency basis.
 - (c) Invoices relating to work performed by contractors did not, in all cases, have contractors time sheets attached.
 - (d) Contractors time sheets were not always properly completed.
 - (e) Invoices relating to work performed by contractors did not in all cases have adequate supporting documentation attached for materials used or equipment rented by the contractor in performing various projects.
 - (f) Labour rates charged on a number of invoices from contractors were not agreed to the rates established per service contract.
- (iii) In my opinion, based on my examination of the system, certain weaknesses exist in the present system of internal control over general and program maintenance expenditure which require immediate attention. In particular, I feel that in the future the Department should ensure that all relevant documents are properly completed and retained for further review if necessary. This is a prerequisite to maintaining an adequate management and audit trail.

I have expressed my concerns to the Department and they have advised me that they are now reviewing the above-noted weaknesses and are taking action to correct this situation. However, as at this date, I have not reviewed the corrective action of the Department and therefore cannot comment on its effect.

Department of Fisheries

40. Control over the operations of Labrador fish plants. Subdivision 8.2.1.04, Operation of Fisheries Facilities and Services, Fish Plant Operations deals with the operations of two fish plants located at Nain and Makkovik, Labrador. These plants, under the Department of Fisheries, engage in purchasing, processing and selling a variety of fish and fish products and generally operate from July to September each year.

For the fiscal year ended 31 March 1984, the Public Accounts disclosed that the Department of Fisheries recorded a net loss of \$867,000 with respect to the operations of these fish plants. This net loss represents a \$475,000 increase over the loss reported in the Public Accounts for the previous fiscal year.

I have performed a review of the accounting records and procedures relating to these plants and report as follows:

- (i) Complete financial information on the results of operations is not made available to management on a timely basis. Presently a statement of revenue and expenditure is prepared only after each 31 March financial year end. This statement does not take into account opening and closing inventory balances.
- (ii) In addition I note that there is no formal costing system in place to provide management with accurate and timely information with respect to the actual costs incurred in the processing of fish and fish products.

In my opinion, in view of the significant losses incurred at these plants, it is essential for management to have complete and timely information in order to adequately control operations. In this regard I recommend that:

- (i) The statement of revenue and expenditure, relating to the operations of the fish plants at Nain and Makkovik should be prepared and subject to managerial review on a monthly basis. The statement should also reflect changes in opening and closing inventories.
- (ii) Serious consideration should be given to developing a basic costing system, which at a minimum would include the major costs relating to the processing of fish products.

An accounting system which includes timely recording and reporting of all relevant information, relative to the operations of the fish plants at Nain and Makkovik, is critical for the optimum management of the resources at these plants. I believe that the Department of Fisheries should ensure that such a system is in place before the 1985 fishing season begins.

Department of Rural, Agricultural and Northern Development

41. **Grants and loans made in contravention of the Act.** Section 7(a)(viii) of The Department of Rural, Agricultural and Northern Development Act provides that, subject to the approval of the Lieutenant-Governor in Council, financial assistance by way of grant or loan may be made to individuals and other entities engaged in or about to become engaged in small industries and enterprises in rural areas.

Section 8(4) of the Act provides that the Rural Development Authority, as established under Section 8(1) of the Act, shall consider and make recommendations on applications received for such financial assistance.

My audit of the Department of Rural, Agricultural and Northern Development for the year ended 31 March 1984 disclosed that in certain cases, based on the recommendation of the Rural Development Authority, financial assistance was granted to applicants for use in other than rural areas.

In my opinion, payments of such financial assistance for use in other than rural areas were in contravention of the Act. Therefore, the Department should review its past practice and take the necessary steps to have such financial assistance receive whatever retroactive authority is considered necessary in the circumstances. As well, the Department should ensure that in the future it will make grants and loans only in accordance with the provisions of the Act.

42. Audit of Northern Development, Labrador Operations (Retail Stores). My audit of the retail stores operated in Labrador by the Department of Rural, Agricultural and Northern Development—Northern Development Branch for the year ended 31 March 1984 disclosed that there were major weaknesses in the system of financial management and accounting control within these stores. As a result of my audit, I issued a management report to the Department outlining the weaknesses in the system and making recommendations for improvement.

These weaknesses could result in the following:

- (i) the processing of unauthorized, fraudulent, or inaccurate sales transactions;
- (ii) the loss of inventory merchandise through spoilage, pilferage or breakage;
- (iii) the issuing of unauthorized or fraudulent disbursements; and
- (iv) the loss of funds from unauthorized access to cash and supporting documentation.

In my opinion, in order to reduce the risk due to the above, it is imperative that the system of financial management and accounting control in the Labrador retail stores be strengthened. Therefore, I included the following recommendations in my management report:

- (i) A management reporting and financial control system should be implemented to provide management with essential information necessary for effective and efficient decision-making and financial control.
- (ii) A senior financial official should be appointed to implement the management reporting and financial control system and other recommendations.
- (iii) An operations manual should be developed to help provide an adequate system of financial control.
- (iv) The store managers should be trained in the retail environment to provide them with the management tools and techniques necessary to operate efficiently and effectively.
- (v) The retail merchandise should be purchased on a timely and economic basis.

In his two responses to my management report, the Deputy Minister of Rural, Agricultural

and Northern Development expressed general agreement with my report, indicated that a number of my recommendations have been implemented and that others will be implemented as quickly as circumstances permit.

43. Lack of authority for certain operating practices of the Northern Development, Labrador Operations (Retail Stores). My audit of the Labrador Operations (Retail Stores) of the Department of Rural, Agricultural and Northern Development, for the year ended 31 March 1984, disclosed the following:

- (i) Credit is granted to customers and store employees.
- (ii) Store employees receive discounts on items purchased from the stores.

The Department could not provide me with the authority for these practices.

In my opinion these operating practices should (a) be subject to a written policy which clearly establishes the terms and conditions for their implementation, and (b) be properly authorized.

Department of Transportation

44. Chartered flights taken but not documented in accordance with Government's stated policy. In May 1982 a Minute of Council was issued which,

" Ordered that, in view of there being no regulatory requirement for recording such specific information, no records be maintained as to purpose of flights or the passengers travelling on Government owned or Government contracted aircraft. Such policy to be effective henceforth."

The Minute of Council was subsequently rescinded in February 1983 by another Minute of Council which,

" Ordered that, with respect to Government owned or Government contracted aircraft, the maintenance of records as to the purpose of flights and the names of passengers travelling on each flight is hereby approved in order to provide for an adequate control system as recommended by the Auditor General."

My 1983-84 audit of certain payments for the charter of aircraft by Government officials disclosed that, in a significant number of cases, compliance with Government's stated policy as revised in February 1983 has not been satisfactory.

Operation of the Province's Air Services Division for the fiscal year 1983-84 cost \$7,174,564. This cost included the contracting and chartering of both helicopters and fixed wing aircraft, as well as the operation of the several Government owned aircraft, including the King Air.

The Estimates of the Department of Transportation for 1983-84 as approved by the House

of Assembly provided \$500,000 for:

" charter of fixed wing aircraft for use by various Government Departments as and when required."

The records of the Department of Transportation show that in excess of \$700,000 was expended for this purpose, an increase over budget of 40%. Fixed wing aircraft were chartered essentially from ten operators.

For purposes of my 1983-84 audit of Government Air Services I selected one of these operators who had received payments from Government for aircraft charter totalling \$110,603, of which \$23,149 was for the provision of Air Ambulance services.

Audit of this operator's billings and aircraft journey logs as well as the Department's aircraft flight authorization forms disclosed as follows, for flights other than Air Ambulance:

- (i) The purpose for which the aircraft was chartered was not adequately stated in the flight documentation for 76% of the flights taken.
- (ii) A complete list of the passengers travelling on each chartered flight was not stated for 34% of the flights taken.

These deficiencies are in direct conflict with Government's stated policy as set out in the Minute of Council previously mentioned.

Additionally, the documentation reviewed disclosed that in some cases:

- (i) Aircraft Journey Logs were not signed for services received by officials using charter flights.
- (ii) Photocopies of original journey logs were submitted by the Company and accepted by the Department as supporting documentation for invoices for air services rendered. This was the case with 85% of the logs supporting invoices for air services. As well, in several cases some of the information contained in the logs was illegible.
- (iii) The operator's invoices were not "certified for payment" by a senior official in the Department of Transportation with specific responsibility for the Air Services Division.
- (iv) Aircraft Flight Authorization forms were authorized by the same official who was to use the chartered aircraft.
- (v) Photocopies of Aircraft Flight Authorization forms were used as supporting documentation for the invoicing of charter flights.

Some details of control deficiencies involving specific charter flights as disclosed by my review are as follows:

- (i) An aircraft was chartered in St. John's to fly to Labrador to pick up a Government official. The Aircraft Journey Log submitted by the Company for the flight stated "no show." Consequently, the Province paid \$2,635 for a return charter flight from St. John's to Labrador without passengers. As well:
 - (a) The "Aircraft Flight Authorization" form for this charter was, in my opinion, not properly authorized.
 - (b) There was no documentation included with the application for payment indicating why the intended passenger did not use the aircraft.
 - (c) The "Aircraft Journey Log" submitted by the Company was a photocopy.
 - (d) The supplier's invoice was not "certified for payment" by a senior official in the Department of Transportation.
- (ii) An aircraft was chartered to fly passengers from St. John's to Goose Bay and to return to Goose Bay several days later to return them to St. John's. The "Aircraft Flight Authorization" form stated "to Strange Lake for three days." Charter costs for these flights totalled \$4,175. My review of the documentation available disclosed that:
 - (a) The "Aircraft Flight Authorization" form was a photocopy and was signed by the official who was to use the aircraft.
 - (b) The purpose of the flight was not stated in the documentation.
 - (c) Only two of the four passengers who made the flight were identified on the "Aircraft Journey Log."
 - (d) At least one of the passengers was not a Government official.
 - (e) The "Aircraft Journey Logs" were not signed by the Government official who received the service and the logs were photocopies.
 - (f) The supplier's invoices were not "certified for payment" by a senior official in the Department of Transportation.
- (iii) An aircraft was chartered to fly an official from St. John's to Stephenville at a cost of \$1,232. The "Aircraft Flight Authorization" form stated "to meet connection—Ferry—Port aux Basques."

My review of this transaction disclosed that:

- (a) The "Aircraft Journey Log" submitted by the Company was a photocopy and the date of the flight was illegible.
 - (b) The log was not approved by the official who took the flight.
 - (c) The purpose of the flight was not stated.
 - (d) The supplier's invoice was not "certified for payment" by a senior official in the Department of Transportation.
- (iv) An aircraft was chartered to fly two Government officials from St. John's to Fredericton and return at a cost of \$3,012.

My review of this transaction disclosed that:

- (a) The flight was authorized by the official who was to use the aircraft.
- (b) The "Aircraft Flight Authorization" form identified as persons travelling a named official and party. The "Aircraft Journey Log" named two officials as passengers.
- (c) The journey log was not signed by an official on the flight.
- (d) The purpose of the chartered flight was not stated in the documentation.
- (e) The invoice was not "certified for payment" by a senior official in the Department of Transportation.

Conclusion

In Paragraph 40 of my 1982-83 Report, I expressed some optimism that serious efforts were underway to correct the various control deficiencies that have existed in the Air Services Division for the past number of years, particularly given the fact that Government had restated its previous policy in connection with the identification of passengers and the purposes of the various flights taken by Government officials.

My 1983-84 audit has shown that the major improvements anticipated have not been fully accomplished. My review of payments to this particular charter company indicates that there continues to be significant occurrences of the control deficiencies that have been disclosed by me in previous Reports to the House of Assembly.

Therefore, in my opinion, Government's requirements for the documentation of the acquisition of Air Services as set out by the Minute of Council in February 1983 are not being complied with in all cases and, as well, are not being adequately enforced by the officials responsible for the administration of the Air Services Program.

Additionally, it seems to me that the use of costly charter aircraft by Government officials to fly to destinations that are well served by commercial carriers is a matter that warrants review.

The chartering of aircraft for flights such as those described above indicates to me that a greater degree of planning and scheduling in the administration of Government Air Services is required if costs to the Province are to be kept under control.

45. Deficiencies in the budgetary process for approving funds for the improvement and construction of provincially funded roads. In making its 1983-84 capital budget proposal to Treasury Board for improvement and construction of provincially funded roads, the Department of Transportation compiled a list of projects with a total cost of approximately \$164,000,000, of which funds amounting to \$77,768,000 were requested for the 1983-84 fiscal year. These funds were intended to continue projects that had been started in previous years and to initiate new projects in 1983-84.

Subsequently, the 1983-84 Estimates were approved by the House of Assembly and a budgetary allocation of \$20,000,000 was provided for road improvement and construction. This allocation was in the form of "block funding" which did not detail in any way the specific projects to be undertaken. This was the case even though certain budgetary documentation indicated that there was a listing of projects supporting the \$20,000,000 budget allocation.

In April 1983 after the "block funding" had been provided for in the 1983-84 Estimates a Minute of Council was issued which approved \$25,148,000 for the 1983-84 roads reconstruction, upgrading and paving program. It detailed the new work to be undertaken by Electoral District, rather than by project. In correspondence to me the Department of Transportation advised that:

"Cabinet did not select the individual projects but left those decisions to the Minister of Transportation."

In June 1983, another Minute of Council provided the further budgetary funding required for the additional road construction commitments. It "Ordered that, under authority of Section 28(2) of The Financial Administration Act, the Lieutenant-Governor in Council be and he is hereby moved to issue a Special Warrant under Head XI, Department of Transportation, in the amount of \$5,148,000 for the purpose of providing for additional road construction commitments..."

Therefore, the original "block funding" of \$20,000,000, as provided for in the Estimates approved by the House of Assembly, was increased to \$25,148,000.

It seems to me that the "Budget Process" as set out in the Province's Management Manual of Financial Policy and Procedures is not well served by the procedure presently undertaken for capital roads projects.

In that Manual, Government sets out the details of the budgetary "Review of Capital

Account" by the Treasury Board Secretariat and the Planning and Priorities Committee of the Executive Council. A review of this procedure indicates that the emphasis is on the "priorizing of projects" by the various Departments so that a decision can be made during the Budget Process as to which projects should be included in the final budget, knowing that all projects presented cannot be approved. Therefore, even this process, it would seem that a final listing of projects totalling \$20,000,000 should have been available at the time the Estimates were presented to the House of Assembly for approval.

One provision of the Management Manual states that, "because of the limited financial resources available to the Province, the size of the total capital budget does not change substantially from year to year." Based on this provision, I would expect that the Department of Transportation's budget submission to Treasury Board would contain only those projects that reflect the Department's essential requirements for road construction and improvement throughout the Province, given the budgetary constraints stated. In this way the House of Assembly, rather than approving "block funding", would be aware of the specific projects that the Department intended to undertake with the funding approved by the House.

I therefore recommend that, for budgetary control purposes, the provision of "block funding" for capital roads projects be discontinued. Instead, the budgetary allocation that the House of Assembly is asked to approve for capital roads projects should be supported in the budgetary documentation by details of the specific projects comprising the capital roads program for that fiscal year.

In my opinion this procedure would eliminate the deficiency that currently exists in the budgetary process for approving funds for the improvement and construction of provincially funded roads in that there would be no need:

- (i) to issue a Minute of Council to approve allocations of road construction funds by Electoral District;
- (ii) to issue a Minute of Council and a Special Warrant to authorize additional funds for the road construction program within one month after the House of Assembly had approved the spending estimates for the fiscal year.

46. The Ferry Vessel Acquisition Program—Significant weaknesses in financial and administrative control (Paragraphs 47 to 55 provide further details.) Minute of Council 1207-'81, dated 30 October 1981, among other things, authorized the Department of Transportation

"to proceed with negotiations for the purchase of the motor vessels "Inch Arran," "Sound of Islay," "Green Bay Transport I" and "John Guy," retaining such consulting assistance as deemed necessary to provide support to the negotiations. The Department to report to Committee of Council when, and if, the negotiations are successful, to obtain approval for the required funding."

Over the last two fiscal years, under this and several other Minutes of Council,

the Department of Transportation has acquired several "used" ferry vessels relative to a new Government policy for operating the Province's ferry service.

My review of matters pertaining to the acquisition, modification and repair of certain of the vessels, acquired under the ferry vessel acquisition program, disclosed significant weaknesses in financial and administrative control, in that:

- (i) Budgeted costs of \$2,164,000, approved by the Lieutenant-Governor in Council for the acquisition of certain vessels, were exceeded by amounts in excess of \$1,000,000.
- (ii) Ferry vessels were purchased without public tender.
- (iii) There was a lack of adequate contractual documentation, tendering procedures and approval of the terms and conditions of agreements in respect of certain of the payments, totalling some \$400,000, to consultants.
- (iv) A satisfactory segregation of signing responsibilities was not maintained for authorizing and approving invoices and payment vouchers for the acquisition program.
- (v) Vouchers were submitted to and processed by the Department of Finance, for the payment of certain vessel acquisition costs, without either invoice or spending authority documentation being included.
- (vi) Certain capital costs of acquiring ferry vessels, totalling some \$200,000, were, in my opinion, incorrectly allocated to current account expenditure instead of to capital account.
- (vii) Public tenders were not called for major vessel refits and repairs. This work was carried out at a cost of some \$1.1 million. It was undertaken in part before, and in part after, the vessels arrived in the Province. For work undertaken in the Province, totalling some \$700,000, the two largest shipyards in the Province were asked to submit proposals.
- (viii) Vessel refit and repair services at time of acquisition were not acquired through the Government Purchasing Agency as required by the Public Works and Services Act, 1973.
- (ix) Effective budgetary and purchasing control was not maintained over costs of major vessel repairs and refits. Actual costs incurred were sometimes significantly higher than originally contracted. In one case repairs totalling some \$530,000 were undertaken on a vessel over a twenty month period. Of this amount, \$264,000 was in addition to the original proposal and the contracted items. Tendering in any form was not undertaken for this additional work.
- (x) Dockyard contracts for major repairs and refits of the Province's ferry fleet were not awarded to the Province's shipyard.
- (xi) A vessel was purchased for \$1,056,000, exceeding a government-obtained

independent appraisal of its market value by \$300,000.

- (xii) A ferry vessel was purchased out of funds appropriated by the Legislature for salaries expenditure.
- (xiii) Departmental files and records were not adequate to ensure proper accounting and administrative control over the costs of the ferry vessel acquisition program.

In a management letter dated 4 July 1984, I submitted the details of these and other concerns related to this program to the Department of Transportation. In a letter dated 5 October 1984, the Department responded to my concerns by giving explanations of decisions taken and procedures followed in the course of implementing this new program.

My individual Report comments that follow, in paragraphs 47 to 55, give details of some of my specific concerns regarding various aspects of the ferry vessel acquisition program.

47. Cost overruns in excess of \$1,000,000 on acquisition of ferry vessels. The several Minutes of Council which authorized the funding for ferry vessel purchases approved a budget for three of those vessels at an estimated cost of \$2,163,800. My analysis of the costs incurred in acquiring the three vessels disclosed that total expenditures of some \$3,186,000 had been made, a budgetary overrun exceeding \$1,000,000.

A comparison of the approved budget and the actual costs follows:

Vessel	Approved Budget	Final Cost	Budgetary Overrun
Inch Arran	\$ 676,800	\$ 906,800	\$ 230,000
Sound of Islay	837,000	1,400,000	563,000
Fivla	650,000	880,000	230,000
	<u>\$2,163,800</u>	<u>\$3,186,800</u>	<u>\$1,023,000</u>

Two of the vessels were purchased in the United Kingdom, the third in New Brunswick.

My review of documentation related to various costs associated with the purchase of these vessels disclosed that:

- (i) Payments in excess of \$300,000 were made to consultants, exceeding the budgetary estimate of \$90,000 by more than 230%.
- (ii) Payments totalling \$1,230,000 were made to shipyards and equipment suppliers

for major vessel modifications, parts and repairs, exceeding the budgetary estimate of \$579,000 by some 110%.

The Department financed a large portion of the total cost overrun of some \$1,000,000 out of funds provided for the acquisition and refurbishing of the vessel "Green Bay Transport I." Approximately \$300,000 was not used for the refurbishing, because it was decided to dispose of the vessel immediately after it had been acquired. Funding for the remainder of the increased costs was obtained as follows:

- (i) \$130,000 of the total funds provided in 1982-83 for the "Fivla" acquisition was not required for that purpose until 1983-84.
- (ii) Some \$200,000 of capital expenditure, representing ferry vessel acquisition costs, was incorrectly charged to current account expenditure, "Ferry Subsidies."
- (iii) The balance of the cost overrun was financed out of the 1983-84 budget.

I am concerned about the extent by which amounts expended exceeded estimated amounts approved by Executive Council for the ferry vessel acquisition program, in that:

- (i) The Department engaged considerable consulting assistance throughout the acquisition program. In my view a major role of such assistance would be to anticipate the extent of vessel modification and major repair necessary to prepare the vessels for provincial operating conditions, so that adequate consideration could be given by Government to the financial implications of purchasing such vessels as opposed to possible alternatives. The Department's budget request, approved by Executive Council for modifications, repairs and other improvements to the vessel "Sound of Islay," totalled \$79,000. Before the vessel left Scotland for Newfoundland in excess of \$200,000 had been paid to dockyards and suppliers in the United Kingdom. When the vessel arrived in the Province it immediately underwent additional dockyard work costing \$47,000. Over the next several months, following the dockyard repairs, some additional \$200,000 was spent for major electrical and mechanical repairs and installations. All of this expenditure was before the vessel went into full service.
- (ii) The Department did not request additional spending authorities from the Lieutenant-Governor in Council to meet its budgetary deficits but instead used funds which, for the most part, had been approved by the Legislature for other vessel acquisitions and for operating subsidies.

In my opinion, the significant cost variances that occurred here should have been reported to Executive Council, outlining the reasons, giving explanations and requesting additional spending approvals. In my opinion, once Government approves an approximate expenditure for a particular program or project based on information outlining the objectives and the expected costs, it is the responsibility of the administrators to ensure that the program is delivered within those cost parameters. It is not acceptable, in my view, to request the

Lieutenant-Governor in Council to approve an estimated cost of \$79,000 for vessel modification and improvement and proceed to spend some \$447,000 for this purpose without explanation or further authorization.

Furthermore, spending authorizations are given based on information supplied and, if significant variations arise, the administrators responsible should report back and explain. This did not happen in this case and I am concerned that spending limits given in Minutes of Council are not being adequately administered by officials requesting such authorizations.

Based on the foregoing, it is my opinion that the budgetary procedures undertaken by the Department of Transportation to estimate, to monitor and to report the costs of the ferry vessel acquisition program were not sufficient to ensure adequate financial and administrative control.

48. Ferry vessels purchased without public tender. The Province's public tendering legislation requires that, with certain specified exceptions, public tenders be called for all "public work" under The Public Tender Act, 1974 as well as for all "supplies and services" acquired through the Government Purchasing Agency under The Department of Public Works and Services Act, 1973.

The Department of Transportation's acquisitions of several "used" ferry vessels were purchases which were within the ambit of the tendering legislation.

However, public tenders were not called for the acquisition of these vessels. As well, the Department did not communicate with the Government Purchasing Agency for approval of the purchasing procedures that they intended to undertake to acquire the vessels.

Undoubtedly, purchasing a ferry vessel is not a routine matter but I believe that with sufficient planning, including adequate lead time, some form of documented public tendering should have been undertaken to provide evidence that all sources of information on vessels available were given the opportunity to make proposals. It is my view that a process such as this would give the Department its best assurances that it was making the most appropriate purchase available to it.

In my opinion, the Province's public tendering legislation was contravened in that a public tendering procedure was not undertaken in acquiring vessels under the ferry vessel acquisition program.

49. Deficiencies in control over payments to consultants. The Department of Transportation commenced implementation of its ferry vessel acquisition program in November 1981. Since then, a total of \$400,000 was paid in fees and expenses to various consultants in connection with the several vessels acquired.

The Department initially engaged, as consultants for this program, a "Company" which had originally been retained to carry out a study of the needs of the intra-provincial ferry service. The "Company" had hired a marine consultant who billed the "Company" which,

in turn, billed the Department for the work performed on its behalf. This arrangement was terminated in December 1982, when the Department engaged the marine consultant directly. It stated that this was to be on a declining basis for a period of approximately six months. Although there were several other consulting firms involved in the program, payments totalling some \$300,000 were made mainly for the services of this consultant either directly or through the "Company."

My review of various documents, including consulting contracts, terms of reference and billing documents, related to the consulting costs of this program, give rise to the following comments:

- (i) The consulting contract with the "Company" was not executed until March 1982, even though consulting costs were incurred in November 1981.
- (ii) The terms of reference for the "Company's" engagement, setting out in general terms the duties and responsibilities of the assignment, dealt entirely with the acquisition of two vessels, the "Inch Arran" and the "Green Bay Transport I." The terms of reference and the main contract were not amended or replaced to set out the terms and conditions of the "Company's" engagements for the acquisition of the "Sound of Islay" and the "Fivla," which were purchased in the United Kingdom.
- (iii) Neither the terms of reference nor the main contract contained an estimate of the length of the engagement or the total estimated cost involved.
- (iv) There was no documentation available to indicate how the fee of \$375 per diem, paid to the "Company" for this engagement, was negotiated, given the fact that the marine consultant hired by the "Company" was only billing the "Company" at the rate of \$230 per diem for his services on behalf of the Province. When the Department stopped dealing through the "Company" in December 1982 and began to receive billing directly from the hired consultant, the rate was reduced by only \$25 per diem to \$350. Also, the consultant's technical assistant apparently was costing the "Company" \$120 per diem and being billed the Department at the rate of \$230 per diem.

In correspondence to the consultant in January 1983, after the "Company" had ceased to be the Department's consultants, it was stated by the Department,

"Therefore, as previously mentioned, your services will only be required on an as required basis with your base being Montreal, unless otherwise requested."

My review of this particular aspect of the Department's consulting arrangements disclosed that:

- (i) Even though the consultant was paid in excess of \$100,000 in fees and expenses for work undertaken from January to October 1983, and was engaged on a continuing basis during that time, there were no terms of reference drawn up, approved

and executed by the Department and the consultant to define the specific nature, probable length and the estimated cost of the engagement.

- (ii) There was no evidence of any written requests to the consultant requesting him to undertake particular assignments.
- (iii) Three of the consultants monthly billings, totalling some \$28,000, were not properly allocated to the appropriate vessel acquisition project but instead were charged against an allocation of funds provided for a vessel that was not purchased.

Other matters disclosed by my review of various consulting documentation are as follows:

- (i) Supporting documents for several monthly billings were not complete in that the activity undertaken was not described in the "Consultants time sheet."
- (ii) The marine consultant, who was stated to be representing the Department's interests in various vessel acquisitions, did not approve billings from other marine consultants who were doing technical work for the Department.
- (iii) Billings made by one consultant did not include documents, as required by the consulting agreement, to support the expenses claimed.

Additionally, my review disclosed that:

- (i) The Department of Transportation did not request tender proposals from various marine consultants for any of the consulting work undertaken.
- (ii) Treasury Board was not asked to approve rates paid, length of engagement or any of the other specific details of the Department's consulting arrangements.

In my opinion, deficiencies such as are outlined above represent significant weaknesses in control over the disbursement of public funds.

50. Certain payment vouchers not documented in accordance with the usual requirements of the Department of Finance for applications for payment of public moneys under provisions of The Financial Administration Act, 1973. My review of applications for payments out of public moneys, made by the Department of Transportation and accepted and processed by the Department of Finance, for certain costs incurred under the ferry vessel acquisition program, disclosed that in some cases the Department of Transportation did not submit properly certified invoice documents and appropriate spending authorities with its payment applications. Instead, it forwarded the related payment vouchers to the Department of Finance with only a letter, from an official, attached. The letter requested that a cheque be issued. These "please issue" letters did not contain any explanation of the circumstances surrounding this unusual method of applying for a disbursement of public funds for goods and services.

Some details relating to payments made in the above-mentioned manner are as follows:

In the process of acquiring the ferry vessel "Sound of Islay" in Scotland, the Department of Transportation arranged with the ferry vendor to act as a "middleman" in dealing with various equipment and parts suppliers and shipyards. Correspondence on the stated:

"The vendors would not undertake to carry out the required work to enable the vessel to receive Canadian certification as a passenger/car ferry in Trade Class III Canadian Service. They did, however, assist this Department in contacting suppliers, making drydock arrangements and acting as a middleman for payments."

Under this arrangement, the Department, instead of making payments directly to the supplier of the goods or services, based on properly approved and certified billing documentation, was disbursing funds to the ferry vendor who, in turn, was receiving invoices and making payments to the various suppliers. Amounts totalling some \$250,000 were paid to the ferry vendor for disbursement to third parties under this arrangement. I note that these payments were usually based on telex requests.

In respect of these transactions, my audit disclosed that:

- (i) Original supplier invoices, properly approved and certified by appropriate departmental officials and signed by the Department's hired consultant, were not included with the application for payment in the Department of Finance. Also, such records could not be produced for audit purposes by the Department of Transportation.
- (ii) The Department of Transportation could not provide adequate spending authorities. Signed contracts, written terms of reference, properly completed purchase orders or other form of detailed spending authorities were not executed between the third party suppliers, the ferry vendor and the Department of Transportation, representing the Province.
- (iii) Documents on file were not adequate to explain the details of certain cost allocations made by the ferry vendor between itself and the Department. One payment voucher submitted by the Department of Transportation to the Department of Finance contained, as the only supporting document, a telex request from the ferry vendor in Scotland showing the total amount of the allocated costs.
- (iv) The "middleman" arrangement undertaken by the Department of Transportation with the ferry vendor to acquire goods and services from third party suppliers was not referred to the Government Purchasing Agency for scrutiny and approval. The Department of Public Works and Services Act, 1973, requires that, with certain specified exceptions, all purchasing done by Government Departments be undertaken through the Agency.

Based on the foregoing, I am convinced that the payment applications made by the Department of Transportation and accepted and processed by the Department of Finance, without

approved and certified invoice documentation and evidence of spending authorities, were not in full compliance with the intended requirements of Section 30(1) of The Financial Administration Act, 1973.

In my opinion, the fact that the methods and procedures undertaken by the Department of Transportation were used to acquire these goods and services indicates significant weaknesses in financial control over the payment of public moneys.

51. Purchase price of ferry vessel greatly exceeded the department-obtained, independent appraisal of market value. Minute of Council 77-'83, dated 26 January 1983, among other things,

"Ordered that, in order to implement a revised vessel deployment plan within the intra-provincial ferry system, the Department of Transportation be and it is hereby authorized to

- (i) proceed to negotiate the purchase of the M.V. (named), at a price not to exceed \$1,056,000 for use within the intra-provincial ferry system as a swing vessel."

Prior to the date of the Minute of Council the Department had been negotiating with the vessel owner with a view to acquiring the ferry. In November 1982 the Department retained the services of a professional marine consultant to carry out an independent appraisal of the vessel. The consultant reported to the Department that,

"It is our considered opinion that the present value of the motor ferry (named) is \$750,000...."

In correspondence to the vessel owner in December 1982 the Department stated,

"Given that your appraisal was in the order of \$1,050,000 and Government's (department-obtained) in the order of \$750,000, we are prepared to purchase your vessel for the average of the two, or \$900,000."

The owner rejected this compromise purchase price for the vessel.

In April 1983 Treasury Board approved the purchase at a price not to exceed \$1,056,000 and shortly thereafter the vendor was paid his asking price of \$1,056,000.

Based on my review of the available documentation related to this ferry vessel acquisition, it appears that:

- (i) Treasury Board and Executive Council were not informed that the independent appraisal had been obtained by the Department of Transportation and the results of that appraisal, even though the Department's Memorandum to Executive Council, relating to Minute of Council 77-'83, was dated in December 1982 and the appraisal was received in November 1982.

- (ii) The Department did not seek advice from the Department of Justice regarding

possible alternative courses of action, even though there was the large difference between the two appraisals.

As well, we have in this case a ferry vessel that Government had subsidized since 1979 in amounts totalling some \$1,160,000, including vessel depreciation costs in excess of \$100,000.

Based on the foregoing, in my opinion:

- (i) This transaction was not conducted in a manner which would ensure the maximum safeguarding of public funds. A payment was authorized and certified by Department officials with the knowledge that the price paid was \$300,000 greater than the department-obtained, independent appraisal of the vessel's value. Under these circumstances I am not satisfied that the price paid for this vessel was reasonable and should have been paid.
- (ii) The Department of Transportation should have given Treasury Board and the Executive Council the opportunity to consider and to evaluate other courses of action, in relation to the \$300,000 difference in the two appraisals.
- (iii) There should be a clearly defined procedure for such transactions, whereby Government is not forced to pay far in excess of market value as established by a government-obtained independent appraisal of the value of an asset to be acquired. Where necessary, a method should be established for settling such issues on a fair and equitable basis for both the vendor and the Province. If that is not done, I suggest that it serves little or no purpose to pay for independent professional appraisal of an asset when the appraisal received is not used, at least, to establish a compromise price or to serve as a basis for pursuing with the vendor the matter of independent arbitration of the price to be paid.

I report that I am not satisfied that public funds were adequately safeguarded by the manner in which this transaction was dealt with and concluded.

52. Ferry vessel purchased out of funds appropriated by the Legislature for salaries expenditure. In April 1983, based on a request from the Department of Transportation, Treasury Board authorized a transfer of funds from current accounts, "Salaries—Maintenance and Repairs—Highways" to a capital account budgetary allocation, "Property—Furnishings and Equipment—Ferry Vessel Acquisition—Capital," in the amount of \$1,056,000, for the purpose of providing funds to acquire a particular ferry vessel.

The funds involved in this transfer were originally approved by the Legislature for the current account purpose of paying salaries. They were subsequently used by the Department of Transportation for the capital account purpose of purchasing a ferry vessel. This, in my view, represents a significant departure from the concept of adequate parliamentary control over the spending of public money.

The Auditor General has long been opposed to transfers of funds between capital and current account budgetary allocations. That opposition to this unacceptable budgetary procedure has been expressed in several previous Reports to the House of Assembly, commencing in 1975-76. I continue to take strong exception to transfers of this nature, which affect the vital interests of strong parliamentary control over Government spending. In my opinion, if parliamentary approval of the Province's annual spending Estimates is to be meaningful, the transfer of approved spending limits between current and capital budgetary allocations cannot be condoned.

53 Dockyard contracts for major repair and refit of Province's ferry fleet not awarded to Province's shipyard. Amounts totalling some \$1.1 million were paid to various shipyards, both in the Province and in the United Kingdom, over the last three fiscal years for repair and refit of ferry vessels acquired by the Province under the ferry vessel acquisition program. Of this amount, in excess of \$700,000 was the cost of work awarded to Newfoundland Dockyard, a C.N. Company. This dockyard was low tenderer on all bid proposals requested by the Department of Transportation from it and the Province's shipyard, Marystown Shipyard Limited. The Province's shipyard was not successful in acquiring any of the Department of Transportation's ferry vessel repair work.

Section 55 of The Department of Public Works and Services Act, 1973, deals with the purchasing practices of the Government Purchasing Agency and it states in part, that:

"The Agency,

- (c) so as to provide a reasonable distribution of Government business in the province, but consistent with good business practices, in respect of certain purchases, may deal with bona fide dealers and suppliers in a certain area of the province but always at competitive prices prevailing in the said area, or at fair and reasonable prices, established by the Agency...."

The Department of Justice in correspondence dated 27 January 1982, among other things, stated that:

"Therefore, unless the Agency gives the authority to Transportation to acquire the services in another manner for reasons of efficiency, in my opinion the work on the ferries would have to be publicly tendered but could after such tender be awarded to other than the lowest tenderer (I would recommend with the approval of Cabinet) on the basis of provincial preference and reasonable distribution of business."

At a meeting held on 28 January 1982, Cabinet passed a Directive which read as follows:

"The proposal to have repairs to the Province's ferry fleet undertaken exclusively at Marystown Shipyard is hereby not approved. The practice of calling for proposals to be continued."

Not only has Marystown Shipyard Limited not been awarded any of the Province's repair work

but, as well, it appears that this facility has no opportunity to bid on work for the largest ferry vessel system in the Province, that of C.N. Marine. This work is negotiated between C.N. Marine, which operates this ferry system, and Newfoundland Dockyard, a C.N. Company.

It seems to me that a reasonable distribution of provincial-government business in the Province is not being undertaken when a shipyard wholly owned by the taxpayers of the Province is not awarded any of the repair business on the provincial-government-owned ferry vessels. This is the case even though the Department of Justice has expressed the opinion that The Department of Public Works and Services Act, 1973 provides the basis for such awards.

In my opinion, this matter should be further reviewed by the Province.

54. Deficiencies in authorization and approval of invoices and payment vouchers processed for the ferry vessel acquisition program. My review of invoices and payment vouchers processed by the Department of Transportation and paid by the Department of Finance for this program disclosed that in some cases control deficiencies existed in authorization and approval as follows:

- (i) Payment vouchers were "Authorized for payment" on behalf of the Deputy Minister of Transportation by the same official who also signed the invoice both as "Certified for Payment" and that the "Service had been received in good order."
- (ii) Invoices were "Certified for payment" by the same official who signed that the "Service had been received in good order."
- (iii) Invoices were not approved for payment in the designated way, in that the signature of an official was affixed to the invoice without any indication of the specific type of approval intended by the signature. The same official who signed the invoice in this manner also authorized the voucher for payment on behalf of the Deputy Minister.

The approval and authorization procedure followed by the Department of Transportation in these cases did not represent a satisfactory system of segregation of signing responsibilities.

I recommend that the Department of Transportation review its procedures for certifying and authorizing invoices and payment vouchers in connection with this program. The Department should ensure that there is satisfactory segregation of signing responsibilities to effect control over its disbursement of public moneys. This is required by Government's "Management Manual, Financial Policy and Procedures." As well, the Department of Finance should take measures to ensure that applications for payment of public moneys, which contain authorization and approval deficiencies such as referred to above, are not paid but returned to the departments concerned for appropriate action and re-submission.

55. Departmental files and records not adequate to ensure proper accounting and administrative control over the costs of the ferry vessel acquisition program. My review of the Department of Transportation's files and records associated with this program disclosed certain deficiencies.

Supporting documentation for various transactions, including certain spending authorities, invoice documentation and the details of various contractual arrangements, were not always readily available. I was unable to locate a centralized file which dealt with all aspects of a particular vessel acquisition. Instead, there were several files in different locations under the control of more than one official.

Additionally, the Department did not maintain a satisfactory system of subsidiary accounting records showing the accumulation of cost details for each vessel as well as the total cost to the Province of all vessels acquired under the ferry vessel acquisition program.

I recommend that the Department of Transportation review this matter with a view to ensuring that complete files and adequate records of the detailed costs of these capital assets are compiled and maintained.

Department of Education

56. Overpayments to School Boards. Section 4(1) of The Schools Act (Teachers' Salaries) Regulations, 1979 as amended by The Schools Act (Teachers' Salaries) Regulations, 1979 (Amdt.) (Newfoundland Regulation 115/84) provides for the allocation to a school board of a salary unit for every 23 pupils registered in schools under its jurisdiction. Section 11(b) and (c) of these regulations also require that the student enrollment figures shown on Part I of the Annual General Returns for all schools in a district be used to calculate the number of salary units allocated to each school board. Therefore a school board is allocated salary units based on the number of students enrolled in its district.

The allocation of salary units to the various school boards for the 1983-84 school year was based on projected student enrollment and not on the enrollment figures shown on Part I of the Annual General Returns. My audit revealed that, generally, these projected enrollment figures were in excess of the actual enrollment figures shown on Part I of the Annual General Returns. This resulted in various school boards receiving grants to pay for salary units which were allocated on projected student enrollment. In my opinion since the regulations do not provide for the use of projected student enrollment figures, any salary units allocated to and used by the various school boards, which resulted from the excess of the projected student enrollments over the actual student enrollments as shown on Part I of the Annual General Returns represent overpayments to these school boards.

The examination of nine out of 35 school boards revealed that approximately 60 salary units were overallocated because projected student enrollment figures were in excess of actual student enrollment as shown on Part I of the Annual General Returns. A portion of the 60 overallocated salary units were not used because several school boards did not employ the total number of teachers allocated. The number of salary units used by each school board

changed during the year. At 26 January 1984 paydate, approximately 36 of the 60 overallocated salary units were employed by the nine school boards. Assuming this represents an average number of units used in excess of the allowable allocation for the 1983-84 school year and using an average teacher salary of \$30,000, this represents overpayments to these nine school boards of approximately \$1,080,000.

I note that the amount of \$1,080,000 is an estimate based on the examination of the allocations for only nine of the 35 school boards and on an average teacher salary of \$30,000. It is of concern to me that the actual amount of overpayments to all school boards would most likely greatly exceed this amount.

57. Underallocation of salary units to three School Boards. Each year, school boards in the Province are allocated a specific number of teaching units in accordance with The Schools Act (Teachers' Salaries) Regulations, 1979 and subsequent amendments. The school boards, as set up under either Section 4 or Section 5 of The Schools Act, are entitled to employ the number of teachers allocated and to receive grants from the Province to pay the salaries of these teachers.

Section 4 of The Schools Act provides for the accommodation of school boards set up prior to the enactment of The Schools Act. Section 5 of The Schools Act provides for new boards which may be created under The Schools Act.

Section 4 of The Schools Act states, in part, that "every School Board... constituted and operating, or continued and operating, under The Education Act, 1960,... immediately before this section came into force, shall,... continue and operate with the same number of members as constituted it immediately before this section came into force... for all purposes, in all respects and with the same powers and the same corporate identity as if such School Board... was a School Board constituted under this Act...." In my opinion, this section requires the allocation of salary units to school boards created under Section 4 in the same manner that salary units are allocated to school boards constituted under Section 5 of the Act.

My audit disclosed that three school boards which the Department of Education indicated were created under Section 4 of the Act:

- (i) were allocated salary units for superintendents, assistant superintendents and program coordinators in a manner different from the manner in which similar salary units were allocated to all other school boards created under Section 5 of The Schools Act. I note that Sections 8 and 12 of The Schools Act (Teachers' Salaries) Regulations, 1979 as amended by The Schools Act (Teachers' Salaries) Regulations, 1979 (Amendment) (Newfoundland Regulation 278/82) exclude school boards created under Section 4 from the allocation procedures used for other school boards constituted under The Schools Act;
- (ii) were allocated approximately 25 salary units less than what would have been allocated if they were created under Section 5 of The Schools Act. Based on an average teacher salary of \$30,000 this would indicate that these three school boards

were entitled to grants in the amount of approximately \$750,000 which they did not receive because Section 4 of The Schools Act was not complied with.

In my opinion, the allocation of any salary units to school boards created under Section 4 of The Schools Act in a manner different from that used to allocate similar salary units to school boards created under other provisions of The Schools Act, is contrary to Section 4 of The Schools Act (i.e. school boards are to be treated the same in all respects).

In addition to the above, I also note that Section 3 of The Department of Education Act requires that all schools receive their share of funds in accordance with scales determined on a non-discriminatory basis. In my opinion, the allocation of teaching units in these three school boards on a basis different from that used for all other school boards does not provide a non-discriminatory basis and is therefore contrary to Section 3 of The Department of Education Act.

58. Payments not in accordance with requirements of The Schools Act. Government grants for the operation and maintenance of schools are paid to the various school boards under the provisions of Section 91 of The Schools Act, Chapter 346 of The Revised Statutes of Newfoundland, 1970. Section 91 of The Schools Act states that grants shall be paid "on a non-discriminatory basis and in accordance with scales set forth in regulations approved by the Lieutenant-Governor in Council."

Also, Section 3 of The Department of Education Act, Chapter 80 of The Revised Statutes of Newfoundland, 1970, states: "(a) all such schools shall receive their share of such funds in accordance with scales determined on a non-discriminatory basis...."

In my opinion, for purposes of Section 91 of The Schools Act, non-discriminatory would take on the meaning stipulated in Section 86 (1) of The Schools Act, which states: "a share shall be set aside for each of the denominations or groups of denominations recognized under this Act... and every such share shall bear the same ratio to the aggregate of such moneys as the number of persons of the denomination or denominations concerned bears to the total population of the province."

Section 103 of The Schools Act provides for the making of regulations by the Lieutenant-Governor in Council upon recommendation of the Minister of Education. The School Boards (Allocation of Moneys) Regulations, 1975, and various amendments to these regulations were made under the above named section of The Schools Act.

Section 3(5) of The School Boards (Allocation of Moneys) Regulations, 1975, by amendment in July 1982, provides for a special interest assistance grant and states that: "The share that may be apportioned to a School Board under subsection (4) shall be the amount that bears the ratio that the amount of such interest charges incurred by the School Board bears to the aggregate amount of such interest charges incurred by all School Boards during that school year."

In my opinion, Section 3 (5) of The School Boards (Allocation of Moneys) Regulations, 1975 is not valid and was not made in accordance with the non-discriminatory basis referred

to in Section 91 of The Schools Act and is therefore ultra vires.

During the 1983-84 financial year, amounts totalling \$1,281,000 were allocated on the basis of Section 3(5) of The School Boards (Allocation of Moneys) Regulations, 1975 and charged to Subdivision 13.2.1.02.10, Primary, Elementary and Secondary Education, Financial Assistance, School Board Operations, Grants and Subsidies. In my opinion, expenditures under this regulation were made without proper authority.

I also note that various other types of grants (energy conservation grants, fire safety grants, grants for above average heat and light costs and special grants for Labrador schools) are provided for under Section 91 of The Schools Act. During the 1983-84 financial year, these grants totalling \$898,119 were also charged to Subdivision 13.2.1.02.10, Primary, Elementary and Secondary Education, Financial Assistance, School Board Operations, Grants and Subsidies. As with the special interest assistance grants, these types of grants are determined on a need basis as opposed to a per student (i.e. non-discriminatory) basis.

In my opinion, the regulations, under which these expenditures were made, were also not validly made in accordance with the non-discriminatory basis referred to in Section 91 of The Schools Act and are therefore, also ultra vires.

Although the ideas expressed in these regulations may have merit (i.e. having been developed to meet a specific need) they are, none the less, not based on a strict interpretation of the statute and are therefore not authorized by statute and do not meet the non-discriminatory requirement of The Schools Act.

59. Payment of tuition fees and allowances, totalling \$9,285,864, without proper authority. In my three previous Reports, I commented on the payment of tuition fees and allowances without proper authority. I noted that the legislative authority to make regulations authorizing the payment of tuition fees and allowances comes from The University Fees and Allowances Act. The criteria for determining assistance under this Act were originally approved by the Lieutenant-Governor on 22 September 1966 and published in The Newfoundland Gazette of 27 September 1966. The regulations approved at that time were known as The University Student Aid Rules, 1966.

These regulations were not filed with the Legislative Counsel as required by Section 17 of The Statutes and Subordinate Legislation Act. Therefore, under that Act, the 1966 regulations ceased to have any effect after 31 December 1978.

Since the criteria under which the Student Aid Program was administered were not properly authorized, in my opinion, payments made under the program during the 1983-84 financial year and charged to Subdivision 13.4.7.03.09, Advanced and Continuing Education, Student Aid, Tuition and Allowances, Allowances and Assistance, amounting to \$9,285,864, were made without proper authority.

I note that the Department of Education agreed with the opinion as stated in my previous Reports (that payments under the Student Aid Program were made without proper authority)

and indicated, each year, that corrective action was being taken.

In my 1982-83 Report, paragraph 46, I noted that the Public Accounts Committee undertook a review of this matter. Their findings, included in the Report of the Public Accounts Committee of the House of Assembly for the Financial Year Ended 31 March 1981, stated that, "The Committee is satisfied that remedial action is being taken on this matter."

I note, however, that as of 13 April 1984 regulations have yet to be made to provide for the payment of tuition fees and allowances.

60. Payment of public examination costs, totalling \$243,326, without proper authority. In my two previous Reports, I commented on the payment of public examination costs without proper authority. I noted that the legislative authority to make regulations authorizing the payment of remuneration to examiners and other persons appointed to conduct public examinations comes from Section 5(a) of The Education (Public Examinations) Act. No regulations were made under this Act to provide the authority to make payments to individuals involved in the supervising, marking, etc., of public examinations.

Since there were no regulations under this Act to provide the authority to make such payments, in my opinion, the payments made during the 1983-84 financial year and charged to Subdivision 13.2.2.02.05, Primary, Elementary and Secondary Education, Instruction and Curriculum Development, Examinations, Professional Services, amounting to \$243,326, were made without proper authority.

I note that the Department of Education previously agreed with the opinion as stated in my previous reports, (that payments for public examination costs were made without proper authority) and agreed to take corrective action. However, as of 9 April 1984, such action had not been taken.

61. Teachers' Payroll System. In paragraph 42 of my 1982-83 Report, I disclosed that as of 31 March 1983 few of the deficiencies in the Teachers' Payroll System, which had been reported to the Department of Education in two management letters, dated 12 December 1980 and 14 September 1981, respectively, had been corrected. I note that Recommendation 17 in the Report of The Public Accounts Committee of the House of Assembly for the Financial Year Ended 31 March 1981, stated that, "The Committee commends to the Department the detailed recommendations of the Auditor General's management letter as well as those of its own steering committee. It is recommended that action be taken without delay on all recommendations which have yet to be implemented."

I now report that audit work performed for the 1983-84 financial year consisted of substantive audit procedures on a sample of cheque transactions selected from the payrolls for the entire period under review, using statistical sampling techniques. Previously reported deficiencies were discussed and reviewed with officials of the Department of Education. Based on this audit work, in my opinion, as of 31 March 1984 major deficiencies still exist in the Teachers' Payroll System. I note, however, that one significant improvement to the system was made in March 1984 when batch control procedures were introduced.

The Department of Education is in the process of developing a new system for Teachers' Payroll, which it plans to have in place by September 1986. However, it is of concern to me that major deficiencies still exist in the present system, which processed payments of approximately \$258,000,000 in the 1983-84 financial year.

Therefore, once again, I urge the Department of Education (with assistance from Treasury Board, the Department of Finance and Newfoundland and Labrador Computer Services Limited) to take immediate action to correct the remaining deficiencies in the Teachers' Payroll System.

Department of Social Services

62. Failure to submit promptly annual claims for contribution under the Canada Assistance Plan. Under Section 13(5) of the Canada Assistance Plan Regulations, 1967, the Government of Canada makes monthly advances to the province as a contribution in respect of the cost to the province of providing welfare services. The province is required to submit an annual claim for each fiscal year showing actual contribution payable, as certified by the provincial auditor, so that an adjustment can be made for any difference between actual contribution payable by the Government of Canada and the total of advances paid to the province for the year.

I note that as at 17 August 1984 the annual claims for contribution for the fiscal years ended 1980, 1981, 1982, 1983 and 1984 have not been submitted to me for audit and certification. The preparation of these claims would enable the province to recover any contribution due or the Government of Canada to recover any overpayment made through monthly advances.

In my opinion, the Department of Social Services should take steps to ensure that these outstanding annual claims for contribution are prepared as soon as possible and that all future claims be prepared on a timely basis.

Department of Health

63. Lack of control over payments made under the Newfoundland and Labrador Prescription Drug Program. On the 29 August 1979 the Minister of Health, under authority of Minute of Council 1065-'79, entered into an agreement with Maritime Hospital Service Association (Blue Cross of Atlantic Canada) to operate the Indigent Drug Program on behalf of the Province. Subsequently, the Senior Citizens Drug Subsidization Program, effective from 1 September 1980, was authorized by Minute of Council 769-'80. In a letter of agreement dated 22 July 1980, the Minister of Health and Blue Cross of Atlantic Canada (Blue Cross) formally agreed that this program would also be administered by Blue Cross in accordance with the terms and conditions set forth in the agreement dated 29 August 1979. Both programs together are referred to as the Newfoundland and Labrador Prescription Drug Program.

The terms of the agreement between Blue Cross and the Minister of Health provided in part that:

- (i) Blue Cross provide audited financial statements in respect of all costs incurred and expenditures made; and
- (ii) All books, documents, records, papers, statements or writings or materials of any kind whatsoever in the control of Blue Cross and in any manner relating to payments and costs incurred in accordance with the agreement shall be subject to audit by the Minister or his duly authorized agents for audit purposes.

Expenditures made by the Province relating to this program are reported in the Public Accounts under Subdivision 15.3.2, Health Care and Assistance Programs, Drug Subsidization. For the fiscal year ended 31 March 1984, the Department of Health paid to Blue Cross the following amounts relating to claims made under the program:

Indigents	\$ 7,766,882
Senior Citizens	3,878,877
	<u>\$11,645,759</u>

My audit of Subdivision 15.3.2 for the year ended 31 March 1984 included a general review of the payments made to Blue Cross relating to the program and a review of the system supporting such payments. My audit findings were as follows:

- (i) The audited financial statements received by the Department of Health from Blue Cross, for the Newfoundland and Labrador Prescription Drug Program, for the year ended 31 March 1984, related to administration costs only. The Department did not receive audited financial statements for the \$11,645,759 paid to Blue Cross by the Province and disbursed by Blue Cross to providers of drugs.
- (ii) During the 1983-84 financial year the Department of Health did not perform an audit of the \$11,645,759 in claims paid to Blue Cross.

As a result of my review of the Prescription Drug Program, in my opinion:

- (i) The audited financial statements presented to the Department of Health by Blue Cross do not adequately support payments made under the program in that only administration costs are being audited.
- (ii) The Department of Health does not have an adequate system of review in place to ensure that monies paid to Blue Cross are for valid claims under the Newfoundland and Labrador Prescription Drug Program.

In view of the above, in my opinion the Department of Health should now take immediate action to strengthen the system of control over payments relating to the Newfoundland and Labrador Prescription Drug Program.

Report I disclosed the results of my audit tests and my review of the Department of Health's system of financial control over payments made to dentists under Subhead 1509, Dental Health Division, for the year ended 31 March 1983.

In that paragraph, I concluded that the administration and accounting system did not include sufficient controls to adequately prevent or detect errors in payments to dentists nor was it adequate to ensure the validity and proper authorization of recorded expenditures. I now report that for the financial year 1983-84 I performed certain audit tests in an effort to determine whether there had been any significant improvement in the situation as reported in my 1982-83 Report. My tests disclosed that the following weaknesses still exist:

- (i) There are no procedural manuals in existence outlining the steps to be followed and rules to be checked when assessing claims.
- (ii) There was no check by the Division of claims submitted by dentists for individuals who qualified under the social assistance guidelines or as other eligible groups, i.e. children at the School for the Deaf, children resident in Orphanages, etc. Reliance was placed on the dentists to ensure that the individual qualified under the program.
- (iii) Under the present manual system claims submitted by dentists are filed by dentist's name. As a result of this and the volume of documents it is difficult to compare a current claim to a patient's history. Therefore, it is possible for a patient to visit more than one dentist and have the same service performed by each dentist.
- (iv) Claims were paid for social assistance recipients for services which require prior approval of the Division, and such claims often did not indicate that prior approval was obtained.

Based on these tests, I have concluded that the administration and accounting system of control over payments to dentists, for the 1983-84 financial year does not include sufficient controls to adequately prevent or detect errors in payments to dentists.

I note that the Department of Health is planning to convert the manual system at its Dental Health Division to a computerized system which is expected to be integrated with the Newfoundland Medical Care Commission payment system. I plan to monitor the department's progress in its conversion and evaluate any controls which may be implemented to correct weaknesses in the present system.

Department of Municipal Affairs

65. **General Municipal Assistance Grants not calculated in accordance with the Regulations.** In paragraph 71 of my 1980-81 Report to the House of Assembly, I disclosed that the Department of Municipal Affairs had not complied with the provisions of The Municipal Grants Act Regulations, 1980, when calculating the Basic Allocation and the Social Assistance Supplement components of the 1980 General Municipal Assistance Grants. In subsequent

management letters to the Department, I expressed my concern that the Department had not complied with the Regulations when calculating these grants for the 1981-82 and 1982-83 financial years.

My audit of these grants for the 1983-84 financial year disclosed that, once again, the Basic Allocation and the Social Assistance Supplement components of the General Municipal Assistance Grants were not calculated in accordance with The Municipal Grants Act Regulations, 1980.

However, I now report that The Municipal Grants Act Regulations, 1984, which were published in The Newfoundland Gazette on 2 November 1984, in effect, approved the Department's calculation of these grants from 1 April 1980 to 31 March 1984. Nevertheless, it should be noted that the Department continued to contravene the existing Regulations for a period of some three years after I initially referred to that matter in my 1980-81 Report.

66. Tax Incentive Grants to municipalities not calculated in accordance with the Regulations. The Municipal Grants Act, which came into force on 1 April 1980, provides for the making of annual grants to municipalities. These grants include the Tax Incentive Grant.

Regulation 5(1) of The Municipal Grants Act Regulations, 1980, prescribed the Tax Incentive Grants that were to be paid annually under the Act:

"The annual Tax Incentive Grant payable to a municipality shall be composed of a 50¢ grant for every \$1. of real property tax up to a limit of \$2 million, and 25¢ grant for every \$1. of real property tax over \$2 million, collected by the municipality in the previous financial year."

My audit of the 1983 Tax Incentive Grants disclosed that the Department of Municipal Affairs used rates of 45¢ and 20¢ respectively to calculate these grants and not the rates prescribed by Regulation 5(1). Thus, the Department did not comply with The Municipal Grants Act Regulations, 1980, when calculating the 1983 Tax Incentive Grants.

However, I now report that the Municipal Grants Act Regulations, 1984, published in The Newfoundland Gazette on 2 November 1984, approved retroactively the rates used. Nevertheless, in my opinion it is irregular that the Department made grants in contravention of the existing Regulations, pending their intended change at some future date.

67. Irregular payment on behalf of a municipality. My audit of Subdivision 17.3.1.01.10 Assistance and Infrastructure, Grants to Municipalities, Water and Sewer Subsidy disclosed that in October 1983, the Department of Municipal Affairs made a payment of \$217,998 to the Newfoundland Municipal Financing Corporation on behalf of a municipality, to assist that municipality in meeting its water and sewer debt charges. My review of certain correspondence relevant to this transaction indicates that this payment was made on the condition that the municipality reimburse the Department at a later date. I note that this reimbursement was receipted on 30 March 1984 and credited to the grants subdivisions to which the payment had been originally charged.

With regard to the above mentioned payment:

- (i) There was no provision in the approved Estimates of the Department of Municipal Affairs to provide for such a payment.
- (ii) The Department made application to the Comptroller General of Finance for the issue of public money to effect the payment as a "Grant," on behalf of the municipality, although it was intended that the amount of \$217,998 was to be recovered from the municipality.

In my opinion the payment was an issue out of the Consolidated Revenue Fund without legislative appropriation and was made contrary to Section 22 of The Financial Administration Act, 1973.

Also, in my opinion, it is highly irregular that the Department made application for the issue of public money as a grant while intending that the issue be used for another purpose.

68. Change in accounting policy. The Department of Municipal Affairs has, in prior years, followed a policy that the payment of interest charged on government guaranteed municipal water and sewer installation bank loans, from the date the funding approved by the Province was fully drawn down, to the date the loan was repaid and refinanced by the Newfoundland Municipal Financing Corporation, was the responsibility of the municipality undertaking the water and sewer project. However, the Department of Municipal Affairs did provide grants to assist municipalities that were not able to pay this interest. These grants were provided for in the annual Estimates of the Department and were recorded as current account expenditure in the Public Accounts of the Province.

On 10 November 1982, Minute of Council 1307-'82 changed this policy and ordered, among other things, that:

- “(1) In respect to all future funding approved for the installation of water and sewer systems, the initial funding include provision for construction costs and engineering costs only, and all interest accrued up to the time when the government guaranteed bank loans are repaid and refinanced by the Newfoundland Municipal Financing Corporation be added to the loans and refinanced on a long-term basis; and
- (2) In respect to existing government guaranteed bank loans for water and sewer systems, interest accrued in future be added to the loans for subsequent refinancing on a long-term basis by the Newfoundland Municipal Financing Corporation....”

As a result of implementing this Minute of Council, interest accrued up to the time when these government guaranteed bank loans are refinanced by Newfoundland Municipal Financing Corporation is now capitalized (added to the bank loans) and grants provided by the Department to assist a municipality in meeting the repayment of this principal to Newfoundland Municipal Financing Corporation is recorded in the Public Accounts of the Province as capital expenditure.

Subsequently, another Minute of Council, 450-'83, dated 19 April 1983, extended the policy referred to above to apply to interest on loans relating to municipal street reconstruction and paving projects which are substantially completed.

The effect of the change in accounting policy is referred to in a note to the Statement of Expenditure and Related Revenue of the Department of Municipal Affairs for the years 1982-83 and 1983-84, respectively.

While I concur with the concept of capitalization of interest on loans relating to water and sewer projects and municipal street reconstruction and paving projects up to date of substantial completion, I am concerned that the application of the policy now in place has resulted in interest being accrued and capitalized on some government guaranteed bank loans for periods in excess of a year after the related projects were substantially completed.

I intend to refer the above-noted concern to the Comptroller General of Finance for his review.

Department of Culture, Recreation and Youth

69. Inadequate financial controls over operations of the Canada Games Park Commission. The Canada Games Park Commission was established by The Canada Games Park Commission Act, assented to on 21 November 1978 and deemed to have come into force on 1 July 1978. The purpose of the Act was to provide for the Administration of certain facilities constructed for the Canada Summer Games. Since being established the Commission has managed the facilities known as the Aquarena. The Commission is funded to a large extent by an annual operating grant from the Department of Culture, Recreation and Youth. The amount of this grant is determined by the Department from the Commission's budget estimate of program revenues and expenses. The operating grant paid in 1983-84 was \$625,000 and the accumulated operating grants paid since the Commission's inception amount to some \$3,000,000.

Section 12(1) of The Canada Games Park Commission Act states that, "Subject to the approval of the Minister (of Culture, Recreation and Youth), the Commission may employ a manager and such other staff as is necessary to operate the property managed by it, and may fix their pay and terms of employment." I could find no documented evidence on file in the Department of Culture, Recreation and Youth that the Minister has approved hirings by the Commission or has had any input into the Commission's employee pay scales or terms of employment.

I also note that the Department of Culture, Recreation and Youth has failed to ensure compliance with Section 16(1) of The Canada Games Park Commission Act which states that, "Not later than the thirty-first day of December in each year the Commission shall prepare, adopt and submit to the Lieutenant-Governor in Council through the Minister (of Culture, Recreation and Youth) a budget containing estimates of all amounts required during the forthcoming financial year." Again, I could find no documented evidence in the Department that these budgets are or ever were submitted to or approved by the Lieutenant-Governor

in Council as required.

Because of the absence of an approved budget for 1983-84, I have to report that the Commission has not complied with Section 18 of the Act, which reads:

" Except with the prior approval of the Lieutenant-Governor in Council, the Commission shall not in any year incur, enter upon, contract or become liable for any expenditure or indebtedness beyond or in excess of the estimated amount of expenditure set out in the approved budget."

In my opinion, the non-compliance with the above-mentioned sections of the Act represents not only a serious weakness in the Department's financial controls over the operations of the Canada Games Park Commission but, also, a disregard for the requirements of the Legislature as stated in the Act.

I have made other comments concerning the Commission in Paragraph 73 of my 1983-84 Report.

Department of Justice

70. Payment of insurance deductibles without authority. Minute of Council 186-'82, dated 25 February 1982, ordered that certain actions be taken regarding the state of emergency in Labrador City in January 1982.

It ordered that funding be provided to the Town of Labrador City to meet the cost of repairs to plumbing and ancillary electrical work in instances where residences became uninhabitable due to storm damage. It ordered further that:

- (i) the Department of Justice monitor the disbursement of the said funds to the Town of Labrador City;
- (ii) the Department of Justice take all necessary steps to recover any insurance that may be payable with respect to such storm damage; and
- (iii) where insurance is recovered by the Department of Justice, the Department be authorized to absorb the cost of any amount that is deductible from claims under the terms and conditions of insurance coverage.

From March 1982 to June 1982 the Department of Justice paid \$650,586 to the Town of Labrador City to meet the cost of repairs to storm-damaged residences. Documents at the Department of Justice show that, to 31 August 1982, the Town of Labrador City had paid \$636,527 to contractors who carried out the repairs. To effect recovery of insurance proceeds as required by the Minute of Council, the Department took an assignment of insurance benefits from individual owners of trailers on which emergency repairs had been carried out. It should be noted that all owners were insured with the same insurance agent.

In October of 1982 the Department of Justice informed the Town of Labrador City that Minute of Council 186-'82 "may be interpreted as providing authority for government to reimburse homeowners at Labrador City with respect to the amount of insurance deductible in claims for repairs to plumbing and ancillary electrical services where residences had to be evacuated during the state of emergency." It requested the Town to carefully evaluate all claims for payment of insurance deductibles and where satisfied as to their validity, make payments from the balance of funds already forwarded by the Department.

Subsequently, a Minute of Council 168-'83, dated 16 February 1983, ordered that the Town of Labrador City in claiming from the Province for payments made with respect to insurance deductibles support each claim with a signed affidavit.

In my opinion Minute of Council 186-'82 did not authorize payment of insurance deductibles. It authorized the Department to absorb the deduction for deductibles that would be made by the insurers from the Province's claim for emergency repairs to plumbing and ancillary electrical work.

On 28 May 1984 the Town of Labrador City forwarded to the Department of Justice its claim, totalling \$63,930, for payment of insurance deductibles.

My audit of the Town's claim to the Department for reimbursement of insurance deductibles disclosed that:

- (i) Payments totalling \$29,150 were made to individuals for whom no emergency repairs had been carried out by the contractors.
- (ii) Forty-one payments of \$100 each (\$4,100) were made to individuals for whom emergency repairs cost less than \$100 each. The total actual cost of repairs was \$2,410.
- (iii) The Town's claim to the Department for reimbursement of the deductibles totalled \$63,930 whereas affidavits were available to support only \$58,600.

In the light of my audit findings, I report that, in my opinion, the financial aspects of the action authorized by Minute of Council 186-'82, regarding the state of emergency in Labrador City in January 1982, were not well administered by the Department of Justice. As a result, the Department incurred expenditure of \$63,930 that was not authorized by Minute of Council 186-'82.

71. Payments made without proper verification. Minute of Council 273-'83, dated 16 March 1983, ordered that the rate of remuneration for the provincial nominees to the Commission of Enquiry into the sinking of the Ocean Ranger be set at an annual salary or a per diem rate at their individual discretion.

The Commissioners elected remuneration at the per diem rate and regularly submitted to the Department of Justice invoices stating the number of days worked.

My audit disclosed that the Department of Justice had no procedures in place to verify the number of days worked by the Commissioners before approving payments to them. In my opinion, the Department should have set up procedures to enable it to verify the days worked.

Other Comments

72. C.A. Pippy Park Commission's budget not approved as required by The Pippy Park Commission Act, 1968. Section 19(1) of The Pippy Park Commission Act, 1968 states that, "The Lieutenant-Governor in Council may approve or disapprove a budget submitted by the Commission."

My audit of the C.A. Pippy Park Commission for the year ended 31 March 1983 disclosed that its budget for that financial year had not been approved in accordance with Section 19(1) of the Act.

In response to my concern about this matter, the Executive Director of the Commission, in a letter to me dated 14 March 1984, stated, "the Pippy Park budget is in fact, approved by Government because of the budgetary process it goes through."

In my opinion, however, the budget of the Commission, for the financial year 1982-83, was not approved in accordance with the Act.

73. Failure of the Canada Games Park Commission to implement adequate internal controls. As auditor of the Canada Games Park Commission, my predecessor and I have reported on the financial statements of the Commission since it commenced operations in August 1978. Each year, as a result of the audit, deficiencies in internal controls have been reported to the Chairman of the Commission and recommendations for improvement have been made. The Commission has taken little or no action over the years to implement certain of those recommendations.

During my audit for the year ended 31 March 1984, I again encountered serious deficiencies in internal controls over cash, revenue, purchases and payroll. In a letter to the Chairman of the Commission, dated 24 July 1984, I reported these deficiencies in great detail in order to emphasize their seriousness.

As expressed in my letter to the Chairman of the Commission, it is my opinion that the Commission has failed to:

- (i) safeguard its assets;
- (ii) ensure that procedures have been established to control the collection and recording of revenue;
- (iii) provide management with policies and procedures for purchasing;

(iv) define clearly the responsibilities of management and staff and establish clear lines of authority; and

(v) ensure that proper and adequate accounting records have been maintained.

I therefore recommend that the Commission take immediate action to ensure that these serious deficiencies in internal controls are corrected without delay.

74. Change in accounting policy and financial statement presentation of the Harmon Corporation. In connection with my audit of the Harmon Corporation for the year ended 31 March 1984, for information purposes, I now report, that the Corporation has agreed to my recommendations for a change in its accounting policy relating to contributed fixed assets. In past years the Corporation's accounting policy respecting these fixed assets was as follows:

The fixed assets, which were transferred to the Province by the Government of Canada, were recorded at values obtained from information supplied by the original owners, the United States Air Force. The offsetting credit to record these fixed assets was included in the surplus account entitled "Contributed Surplus." These fixed assets were not depreciated.

Using this accounting policy the financial statements of the Corporation at 31 March 1984 would have disclosed the following:

Fixed Assets Contributed	\$49,788,714
Contributed Surplus	\$49,788,714

As a result of my audit I became concerned that this method of presentation would be misleading to the reader of the financial statements. I felt that because the Corporation had not recorded any depreciation on these assets, despite the fact that many of the buildings were in excess of thirty years old and in need of repair, a reader of the financial statements might assume that the carrying value for these fixed assets in the financial statements might reflect their true market value.

The determination of an accurate market value for these fixed assets would require a complete appraisal of such assets which the Corporation felt would not be cost justified in the circumstances. In order to reduce the discrepancy between the carrying value and the underlying market value of fixed assets, I recommend that the Corporation adopt, on a retroactive basis, a policy of depreciating fixed assets over their estimated useful lives.

I now report that the Corporation has agreed with my recommendation and commenced recording depreciation on its contributed assets over an estimated forty year useful life. This accounting policy change was applied retroactively in the 31 March 1984 financial statements of the Corporation with the following effects:

Reduction in carrying value of fixed assets	\$34,759,535
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Reduction in contributed surplus	\$34,759,535
Equity in the value of contributed assets as presented in the financial statements	\$15,029,180

In my opinion because of this reduction in the value of the Corporation's equity in its contributed assets as presented in its financial statements these statements now more accurately reflect the true value of the Corporation's present equity in these assets.

75. Audit of the Newfoundland Medical Care Commission. The Newfoundland Medical Care Insurance Plan provides coverage of medical services for all bona-fide residents of the Province. The plan is administered by the Newfoundland Medical Care Commission, appointed in accordance with Section 4 of the Newfoundland Medical Care Insurance Act, Chapter 265 of the Revised Statutes of Newfoundland, 1970, and the Commission is responsible to the Minister of Health.

The Medical Care Insurance Fund, authorized under Section 29 of the Act, is financed by monies voted by the Legislature. For the financial year ended 31 March 1984 the Public Accounts disclosed that the Province paid \$58,806,000 under Subhead 15.5 for the operation of the Newfoundland Medical Care Insurance Plan.

My 1983-84 interim audit of the Newfoundland Medical Care Commission disclosed a number of weaknesses in the system of internal control relating to the computer installation at the Commission. As a result of the audit I issued a management report on 30 April 1984 outlining the various systems weaknesses and making recommendations for improvement.

During the interim audit I also performed an assessment of the present system of financial management and accounting control over payments made by the Newfoundland Medical Care Commission to physicians. My review disclosed that many of the weaknesses reported to the Commission by the Auditor General on 7 January 1980 still exist in the present system. These include the following:

- (i) The internal audit group at the Newfoundland Medical Care Commission presently reviews regular claims from physicians at a rate of approximately 0.3 percent of total claims received. Statistical sampling techniques are not employed in the selection process and there is inadequate follow-up performed on non-replies to confirmation requests.
- (ii) There is insufficient appropriate evidence available, other than direct confirmation by the patient, to validate claim forms submitted by a physician on behalf of a patient for an office or home visit. Claim forms are not signed by patients to show the receipt of service performed by the physician.
- (iii) The patient master file contains patient identity numbers well in excess of the population of Newfoundland.

In view of these weaknesses and the weaknesses in internal control over the computer installation I concluded that I could not rely on the present system to support my audit opinion on the financial statements of the Newfoundland Medical Care Commission. I, therefore, had to substantially increase my audit tests at the year end in order to assess the impact of these weaknesses on the transactions and financial statements of the Commission. As a result I had to spend an extensive amount of time and effort obtaining sufficient appropriate audit evidence in order to report without qualification on the financial statements.

As a result of my findings as outlined above I have written to the Chairman of the Commission recommending that a serious effort be made to strengthen and improve the system of financial management and accounting control over payments made to physicians. I have also recommended that the system of control over the computer installation be improved and that an independent systems review of this operation be undertaken in order to make specific recommendations for improvement.

76. Government approves borrowing for the Public Libraries Board resulting in the circumvention of The Public Libraries Act, 1975. During the 1981-82 financial year the Public Libraries Board was authorized, by Minute of Council 1029-'81, to direct the Labrador City Public Libraries Board to proceed with the construction of a new library in Labrador City. The Labrador City Public Libraries Board is a branch of the Public Libraries Board created under the authority of Section 8(2) of The Public Libraries Act, 1975. This Minute of Council also ordered that:

" as a means of financing so that the project may proceed, the Town of Labrador City be requested to obtain the authority of the Honourable the Minister of Municipal Affairs to borrow up to \$132,000 from a chartered bank, the said amount representing the balance of the Public Libraries Board share of the cost of the project to be included in the 1982-83 capital accounts estimates of the Board."

The Minister of Municipal Affairs, in a letter dated 14 September 1981, to the Town Council of Labrador City stated that:

" Approval is hereby given to the Town Council of Labrador City to borrow from a chartered bank an amount not exceeding \$258,000 repayable over a period not exceeding one year; the said loan to be used to finance the new Library Building. An amount of \$132,000 will be repaid by the Department of Culture, Recreation and Youth during the fiscal year 1982-83 while the balance is the responsibility of the municipal authority."

Thus, in effect, Government approved a transaction whereby, the Town Council of Labrador City was authorized to borrow funds which were to be loaned to the Labrador City Public Libraries Board. These funds could not be obtained directly from the bank by the Public Libraries Board, since it does not have the statutory authority to borrow funds. I note that during the 1982-83 financial year the Public Libraries Board received in its capital grant from Government sufficient funds to enable it to pay to the Town Council of Labrador City the \$132,000 which had been previously loaned to the Labrador City Public Libraries Board.

I question whether Government, the Public Libraries Board and the Town of Labrador City should have entered into such a transaction, the main purpose of which was to borrow funds to complete a building for the Labrador City Public Libraries Board, when, in fact, the Crown Corporation responsible for the operation of this library board (i.e. the Public Libraries Board) does not have the statutory authority to borrow funds. In my opinion, the substance of this transaction circumvented The Public Libraries Act, 1975.

ACKNOWLEDGEMENTS

I wish to express, on behalf of myself and all staff of the Department of the Auditor General, my sincere thanks to officials of Government Departments, Crown Corporations, Municipalities and other entities, which I audited, for their understanding, co-operation and assistance during the course of the audits.

Also, I wish to thank the staff of the Department of the Auditor General for their support during the past year.

30 November 1984

J.F. McGrath, C.A.
Auditor General

APPENDICES

Appendix

I Other Financial Information

- Comparison of actual and estimated revenue, expenditure and related revenue
- Appropriations by the Legislature
- Unexpended balances of appropriations

II Crown Corporation and Other Audits

- Crown Corporations, Boards, Authorities and Sundry Funds
- School Tax Authorities
- Municipalities
- City

III Crown Corporations, Boards and Authorities not audited by the Auditor General

Appendix I

OTHER FINANCIAL INFORMATION

The following summary and tables have been compiled primarily from information contained in Statement 4 of The Public Accounts of the Province for the year ended 31 March 1984.

Comparison of actual and estimated revenue, expenditure and related revenue

The summary shows differences, in total, between actual and estimated amounts for the year and the number of sources and departments in which they occurred:

	Actual more than estimated		Actual less than estimated	
	No. of Sources	Amount	No. of Sources	Amount
	(thousands of dollars)		(thousands of dollars)	
Current account revenue	1	3,329	2	53,554
	No. of Depts.		No. of Depts.	
Expenditure:				
Current Account	5	9,863	14	45,050
Capital Account	5	101,601	10	25,342
	No. of Depts.		No. of Depts.	
Related Revenue:				
Current Account	4	6,336	15	22,240
Capital Account	3	426	10	18,933

Table 1 shows differences by source, and Tables 2 to 5 show differences by department.

TABLE 1

Current Account Revenue
(thousands of dollars)

Source	Estimates	Actual	Increase (Decrease)
Government of Canada	759,330	746,457	(12,873)
Provincial Tax Sources	793,085	752,404	(40,681)
Other Provincial Sources	101,269	104,598	3,329
	<u>1,653,684</u>	<u>1,603,459</u>	<u>(50,225)</u>

Note

1. Actual revenue from Provincial Tax Sources is net of refunds of taxes totalling \$4,537,000.

TABLE 2

Current Account Expenditure
(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	<u>321,439</u>	<u>320,757</u>	<u>(682)</u>
	Supply Services:			
II	Legislative	6,515	6,280	(235)
III	Executive Council	7,654	6,972	(682)
IV	Finance	29,769	29,866	97
V	Public Works and Services	22,854	20,722	(2,132)
VI	Development	17,563	16,594	(969)
VII	Mines and Energy	54,503	46,009	(8,494)
VIII	Fisheries	11,963	11,046	(917)
IX	Forest Resources and Lands	29,526	23,117	(6,409)
X	Rural, Agricultural and Northern Development	26,457	23,067	(3,390)
XI	Transportation	73,935	68,851	(5,084)
XII	Environment	3,212	3,079	(133)
XIII	Education	468,902	458,157	(10,745)
XIV	Social Services	184,193	186,910	2,717
XV	Health	440,024	436,890	(3,134)
XVI	Labour and Manpower	10,325	12,215	1,890
XVII	Municipal Affairs	59,759	57,715	(2,044)
XVIII	Culture, Recreation and Youth	24,286	24,367	81
XIX	Justice	<u>70,145</u>	<u>75,223</u>	<u>5,078</u>
		<u>1,541,585</u>	<u>1,507,080</u>	<u>(34,505)</u>
		<u>1,863,024</u>	<u>1,827,837</u>	<u>(35,187)</u>

TABLE 3

Current Account Related Revenue
(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	<u>17,333</u>	<u>12,524</u>	<u>(4,809)</u>
	Supply Services:			
II	Legislative	262	290	28
III	Executive Council	310	245	(65)
IV	Finance	2,051	4,151	2,100
V	Public Works and Services	1,940	1,432	(508)
VI	Development	1,864	1,761	(103)
VII	Mines and Energy	3,518	2,960	(558)
VIII	Fisheries	2,757	2,346	(411)
IX	Forest Resources and Lands	15,944	9,571	(6,373)
X	Rural, Agricultural and Northern Development	13,891	9,990	(3,901)
XI	Transportation	4,896	4,621	(275)
XII	Environment	352	293	(59)
XIII	Education	24,011	22,551	(1,460)
XIV	Social Services	71,906	70,561	(1,345)
XV	Health	8,339	12,298	3,959
XVI	Labour and Manpower	4,217	3,655	(562)
XVII	Municipal Affairs	2,322	1,459	(863)
XVIII	Culture, Recreation and Youth	1,729	1,978	249
XIX	Justice	3,269	2,321	(948)
		<u>163,578</u>	<u>152,483</u>	<u>(11,095)</u>
		<u>180,911</u>	<u>165,007</u>	<u>(15,904)</u>

TABLE 4

Capital Account Expenditure
(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	40	777	737
	Supply Services:			
IV	Finance	5,337	5,769	432
V	Public Works and Services	13,985	18,395	4,410
VI	Development	11,331	5,579	(5,752)
VII	Mines and Energy	10	2	(8)
VIII	Fisheries	5,434	3,133	(2,301)
IX	Forest Resources and Lands	9,117	4,862	(4,255)
X	Rural, Agricultural and Northern Development	5,949	4,239	(1,710)
XI	Transportation	81,297	91,009	9,712
XIII	Education	55,869	142,179	86,310
XIV	Social Services	607	590	(17)
XV	Health	25,822	23,689	(2,133)
XVII	Municipal Affairs	24,051	19,756	(4,295)
XVIII	Culture, Recreation and Youth	6,554	2,809	(3,745)
XIX	Justice	5,930	4,804	(1,126)
		<u>251,293</u>	<u>326,815</u>	<u>75,522</u>
		<u>251,333</u>	<u>327,592</u>	<u>76,259</u>

TABLE 5

Capital Account Related Revenue
(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
	Supply Services:			
IV	Finance	10,928	7,902	(3,026)
V	Public Works and Services	100	2	(98)
VI	Development	969	1,156	187
VII	Mines and Energy	606	703	97
VIII	Fisheries	—	142	142
IX	Forest Resources and Lands	8,128	4,592	(3,536)
X	Rural, Agricultural and Northern Development	4,681	3,423	(1,258)
XI	Transportation	35,265	34,640	(625)
XIII	Education	9,203	2,362	(6,841)
XIV	Social Services	28	18	(10)
XV	Health	1,752	1,265	(487)
XVII	Municipal Affairs	6,241	3,969	(2,272)
XVIII	Culture, Recreation and Youth	1,547	767	(780)
		<u>79,448</u>	<u>60,941</u>	<u>(18,507)</u>

Appropriations by the Legislature

Appropriations provided by the Legislature and by special warrants for the financial year 1983-84 totalled \$1,922,432,000, as follows:

(thousands of dollars)

The Interim Supply Act, 1983, enacted 1 April 1983	442,974
The Supply Act, 1983, enacted 31 May 1983	1,344,806
Special warrants	134,652
Total appropriations	<u>1,922,432</u>

Subsequent to enactment of The Supply Act, 1983, spending authority for amounts totalling \$134,651,700 was provided by special warrants issued by the Lieutenant-Governor under the provisions of Section 26 of The Financial Administration Act, 1973. In all, thirty special warrants were issued up to March 1984: twenty-eight under Section 28(2), and two under Section 28(3) of the Act. As at the date of my Report, these special warrants have not been subsequently sanctioned by the Legislature.

Unexpended balances of appropriations

Of the \$1,922,432,400 appropriations available in respect of expenditure for the year ended 31 March 1984, \$93,410,256 remained unexpended.

In compliance with Section 24 of The Financial Administration Act, 1973, balances comprising this amount lapsed and were written off.

The lapsed balances are tabulated as follows by department.

Head	Department	Current Account	Capital Account	Total
		(thousands of dollars)		
I	Consolidated Fund Services	—	—	—
II	Legislative	196	—	196
III	Executive Council	700	—	700
IV	Finance	1,220	306	1,526
V	Public Works and Services	3,242	7,883	11,125
VI	Development	1,331	6,252	7,583
VII	Mines and Energy	8,467	8	8,475
VIII	Fisheries	917	2,301	3,218
IX	Forest Resources and Lands	6,482	4,248	10,730
X	Rural, Agricultural and Northern Development	3,329	1,710	5,039
XI	Transportation	4,576	8,791	13,367
XII	Environment	131	—	131
XIII	Education	10,663	(2,666)	7,997
XIV	Social Services	3,299	—	3,299
XV	Health	6,044	1,741	7,785
XVI	Labour and Manpower	1,150	—	1,150
XVII	Municipal Affairs	2,420	4,685	7,105
XVIII	Culture, Recreation and Youth	355	1,972	2,327
XIX	Justice	1,657	—	1,657
		<u>56,179</u>	<u>37,231</u>	<u>93,410</u>

Appendix II

CROWN CORPORATION AND OTHER AUDITS**Crown Corporations, Boards, Authorities and Sundry Funds:**

Alcohol and Drug Dependency Commission

Bay St. George Community College

Bell Island Hospital Building Corporation Limited

B.L.C. Building Corporation Limited

Canada Games Park Commission

C.A. Pippy Park Commission

Centre for Cold Ocean Resources Engineering

College of Fisheries, Navigation, Marine Engineering and Electronics

College of Trades and Technology

Consolidated Sinking Fund

Corner Brook Hospital Buildings Corporation Limited

Economic Council of Newfoundland and Labrador

Farm Development Loan Board

Fisheries Loan Board of Newfoundland

Gander Development Corporation

Gander Hospital Corporation Limited

Grace Hospital Extension Corporation Limited

Grand Falls Hospital Corporation Limited

Harmon Corporation

Hotel Buildings Limited

Livestock Owners Compensation Board

Memorial University of Newfoundland

Memorial University of Newfoundland Building Corporation Limited

Mooring Cove Building Company Limited

Motor Vehicle Accident Security Account

Newfoundland and Labrador Arts Council

Newfoundland and Labrador Computer Services Limited

Newfoundland and Labrador Housing Corporation

Newfoundland and Labrador Youth Advisory Council

Newfoundland Crop Insurance Agency

Newfoundland Farm Products Corporation

Newfoundland Government Building Corporation Limited

Newfoundland Industrial Development Corporation

Newfoundland Legal Aid Commission

Newfoundland Liquor Corporation

Newfoundland Liquor Licensing Board

Newfoundland Medical Care Commission

Newfoundland Municipal Financing Corporation

Newfoundland Municipal Financing Corporation Sinking Funds

Northern Hospitals Building Corporation Limited

Nurses Training School Building Corporation Limited

Pepperrell Hospital Reconstruction Corporation Limited

Power Distribution District of Newfoundland and Labrador

Province of Newfoundland Pooled Pension Fund

Provincial Advisory Council on the Status of Women—Newfoundland and Labrador

Public Accountants Licensing Board

Public Libraries Board

Registrar of the Supreme Court of Newfoundland

St. John's Infirmary Building Corporation Limited

St. John's Residential Tenancies Board

School Insurance Committee

Technical College Building Corporation Limited

Vocational Schools (Western) Building Corporation Limited

School Tax Authorities:

Bay D'Espoir	Placentia—St. Mary's
Bay St. George	Port au Port
Burin Peninsula	Port aux Basques
Central Labrador	Regional District No. 1
Conception Bay South	St. Barbe South
Corner Brook	St. John's
Deer Lake	Trinity-Conception
Exploits Valley	Vinland
Ferryland	
Green Bay	
Labrador West	
Notre Dame	

Municipalities:

Badger	Little Burnt Bay
Bay Roberts	Little Catalina
Benoit's Cove	Lushes Bight-Beaumont-Beaumont North
Bonavista	Main Brook
Conception Harbour	Mclvers
Cox's Cove	Meadows
Deer Lake	Mount Carmel
Dunville	Mount Moriah
Elliston	Old Perican
Englee	Pasadena
Flatrock	Petty Harbour
Fox Harbour	Placentia
Freshwater	Port Anson
Gillams	Portugal Cove
Glenwood	Pouch Cove
Hampden	St. Brendan's
Holyrood	Salvage
Howley	Sandy Cove
Irishtown	South Brook
Jerseyside	Torbay
King's Point	Wabana
Lark Harbour	Westport

City:

City of St. John's

Appendix III**Crown Corporations, Boards and Authorities not audited by the Auditor General:**

Churchill Falls Labrador Corporation Limited

Fisheries Development Corporation of Newfoundland

Lower Churchill Development Corporation Limited

Marystown Shipyard Limited

Newfoundland and Labrador Development Corporation Limited

Newfoundland and Labrador Hydro Electric Corporation

Newfoundland Cancer Treatment and Research Foundation

Newfoundland Ocean Research and Development Corporation

Board of Commissioners of Public Utilities

Workers' Compensation Commission